

**ESSB 6143 - H AMD 1531**

By Representative Hunter

ADOPTED AND ENGROSSED 3/8/10

Strike everything after the enacting clause and insert the following:

**"NEW SECTION. Sec. 1.** In order to preserve funding for education, public safety, health care, environmental protection, and safety net services for children, elderly, disabled, and vulnerable people, it is the intent of the legislature to close obsolete tax preferences, clarify the legislature's intent regarding existing tax policy, and to ensure balanced tax policy while bolstering emerging industries.

**PART I**

**Minimum Nexus Standards**

**NEW SECTION. Sec. 101.** (1) The legislature finds that out-of-state businesses that do not have a physical presence in Washington earn significant income from Washington residents from providing services or collecting royalties on the use of intangible property in this state. The legislature further finds that these businesses receive significant benefits and opportunities provided by the state, such as: Laws providing protection of business interests or regulating consumer credit; access to courts and judicial process to enforce business rights, including debt collection and intellectual property rights; an orderly and regulated marketplace; and police and fire protection and a transportation system benefiting in-state agents and other representatives of out-of-state businesses. Therefore, the legislature intends to extend the state's business and occupation tax to these companies to ensure that they pay their fair share of the cost of services that this state renders and the infrastructure it provides.

(2)(a) The legislature also finds that the current cost apportionment method in RCW 82.04.460(1) for apportioning most service income has been difficult for both taxpayers and the department to

1 apply due in large part (i) to the difficulty in assigning certain  
2 costs of doing business inside or outside of this state, and (ii) to  
3 its dissimilarity with the apportionment methods used in other states  
4 for their business activity taxes.

5 (b) The legislature further finds that there is a trend among  
6 states to adopt a single factor apportionment formula based on sales.  
7 The legislature recognizes that adoption of a sales factor only  
8 apportionment method has the advantages of simplifying apportionment  
9 and making Washington a more attractive place for businesses to expand  
10 their property and payroll. For these reasons, the legislature adopts  
11 single factor sales apportionment for purposes of apportioning royalty  
12 income and certain service income for state business and occupation tax  
13 purposes.

14 (c) Nothing in this act may be construed, however, to authorize  
15 apportionment of the gross income or value of products taxable under  
16 the following business and occupation tax classifications: Retailing,  
17 wholesaling, manufacturing, processing for hire, extracting, extracting  
18 for hire, printing, government contracting, public road construction,  
19 the classifications in RCW 82.04.280 (2), (4), (6), and (7), and any  
20 other activity not specifically included in the definition of  
21 apportionable activities in RCW 82.04.460, or cities with a business  
22 and occupation tax to implement or to apply apportionment of gross  
23 income provided in this act.

24 **Sec. 102.** RCW 82.04.220 and 1961 c 15 s 82.04.220 are each amended  
25 to read as follows:

26 (1) There is levied and ((shall be)) collected from every person  
27 that has substantial nexus with this state a tax for the act or  
28 privilege of engaging in business activities. ((Such)) The tax ((shall  
29 be)) is measured by the application of rates against value of products,  
30 gross proceeds of sales, or gross income of the business, as the case  
31 may be.

32 (2) A person who has substantial nexus with this state in any tax  
33 year will be deemed to have substantial nexus with this state for the  
34 following four tax years.

35 NEW SECTION. **Sec. 103.** A new section is added to chapter 82.04  
36 RCW to read as follows:

1 "Engaging within this state" and "engaging within the state," when  
2 used in connection with any apportionable activity as defined in RCW  
3 82.04.460, means that a person generates gross income of the business  
4 from sources within this state, such as customers or intangible  
5 property located in this state, regardless of whether the person is  
6 physically present in this state.

7 NEW SECTION. **Sec. 104.** A new section is added to chapter 82.04  
8 RCW to read as follows:

9 (1) A person engaging in business is deemed to have substantial  
10 nexus with this state if the person is:

11 (a) An individual and is a resident or domiciliary of this state;

12 (b) A business entity and is organized or commercially domiciled in  
13 this state; or

14 (c) A nonresident individual or a business entity that is organized  
15 or commercially domiciled outside this state, and in any tax year the  
16 person has:

17 (i) More than fifty thousand dollars of property in this state;

18 (ii) More than fifty thousand dollars of payroll in this state;

19 (iii) More than five hundred thousand dollars of receipts from this  
20 state; or

21 (iv) At least twenty-five percent of the person's total property,  
22 total payroll, or total receipts in this state.

23 (2)(a) Property counting toward the thresholds in subsection  
24 (1)(c)(i) and (iv) of this section is the average value of the  
25 taxpayer's property, including intangible property, owned or rented and  
26 used in this state during the tax year.

27 (b)(i) Property owned by the taxpayer, other than loans and credit  
28 card receivables owned by the taxpayer, is valued at its original cost  
29 basis. Loans and credit card receivables owned by the taxpayer are  
30 valued at their outstanding principal balance, without regard to any  
31 reserve for bad debts. However, if a loan or credit card receivable is  
32 charged off in whole or in part for federal income tax purposes, the  
33 portion of the loan or credit card receivable charged off is deducted  
34 from the outstanding principal balance.

35 (ii) Property rented by the taxpayer is valued at eight times the  
36 net annual rental rate. For purposes of this subsection, "net annual

1 rental rate" means the annual rental rate paid by the taxpayer less any  
2 annual rental rate received by the taxpayer from subrentals.

3 (c) The average value of property must be determined by averaging  
4 the values at the beginning and ending of the tax year; but the  
5 department may require the averaging of monthly values during the tax  
6 year if reasonably required to properly reflect the average value of  
7 the taxpayer's property.

8 (d)(i) For purposes of this subsection (2), loans and credit card  
9 receivables are deemed owned and used in this state as follows:

10 (A) Loans secured by real property, personal property, or both real  
11 and personal property, are deemed owned and used in the state if the  
12 real property or personal property securing the loan is located within  
13 this state. If the property securing the loan is located both within  
14 this state and one or more other states, the loan is deemed owned and  
15 used in this state if more than fifty percent of the fair market value  
16 of the real or personal property is located within this state. If more  
17 than fifty percent of the fair market value of the real or personal  
18 property is not located within any one state, then the loan is deemed  
19 owned and used in this state if the borrower is located in this state.  
20 The determination of whether the real or personal property securing a  
21 loan is located within this state must be made, as of the time the  
22 original agreement was made, and any and all subsequent substitutions  
23 of collateral must be disregarded.

24 (B) Loans not secured by real or personal property are deemed owned  
25 and used in this state if the borrower is located in this state.

26 (C) Credit card receivables are deemed owned and used in this state  
27 if the billing address of the cardholder is in this state.

28 (ii) The definitions in section 106 of this act apply to this  
29 subsection.

30 (e) Notwithstanding anything else to the contrary in this  
31 subsection, property counting toward the thresholds in subsection  
32 (1)(c)(i) and (iv) of this section does not include a person's  
33 ownership of, or rights in, computer software as defined in RCW  
34 82.04.215, including computer software used in providing a digital  
35 automated service; master copies of software; and digital goods and  
36 digital codes residing on servers located in this state.

37 (3)(a) Payroll counting toward the thresholds in subsection  
38 (1)(c)(ii) and (iv) of this section is the total amount paid by the

1 taxpayer for compensation in this state during the tax year plus  
2 nonemployee compensation paid to representative third parties in this  
3 state. Nonemployee compensation paid to representative third parties  
4 includes the gross amount paid to nonemployees who represent the  
5 taxpayer in interactions with the taxpayer's clients and includes sales  
6 commissions.

7 (b) Compensation is paid in this state if the compensation is  
8 properly reportable to this state for unemployment compensation tax  
9 purposes, regardless of whether the compensation was actually reported  
10 to this state.

11 (c) Nonemployee compensation is paid in this state if the service  
12 performed by the representative third party occurs entirely or  
13 primarily within this state.

14 (d) For purposes of this subsection, "compensation" means wages,  
15 salaries, commissions, and any other form of remuneration paid to  
16 employees or nonemployees and defined as gross income under 26 U.S.C.  
17 Sec. 61 of the federal internal revenue code of 1986, as existing on  
18 April 1, 2010.

19 (4) Receipts counting toward the thresholds in subsection  
20 (1)(c)(iii) and (iv) of this section are those amounts included in the  
21 numerator of the receipts factor under sections 105 and 106 of this  
22 act.

23 (5)(a) Each December, the department must review the cumulative  
24 percentage change in the consumer price index. The department must  
25 adjust the thresholds in subsection (1)(c)(i) through (iii) of this  
26 section if the consumer price index has changed by five percent or more  
27 since the later of July 1, 2010, or the date that the thresholds were  
28 last adjusted under this subsection. For purposes of determining the  
29 cumulative percentage change in the consumer price index, the  
30 department must compare the consumer price index available as of  
31 December 1st of the current year with the consumer price index as of  
32 the later of July 1, 2010, or the date that the thresholds were last  
33 adjusted under this subsection. The thresholds must be adjusted to  
34 reflect that cumulative percentage change in the consumer price index.  
35 The adjusted thresholds must be rounded to the nearest one thousand  
36 dollars. Any adjustment will apply to tax periods that begin after the  
37 adjustment is made.

1 (b) As used in this subsection, "consumer price index" means the  
2 consumer price index for all urban consumers (CPI-U) available from the  
3 bureau of labor statistics of the United States department of labor.

4 (6) Subsections (1) through (5) of this section only apply with  
5 respect to the taxes imposed under this chapter on apportionable  
6 activities as defined in RCW 82.04.460. For purposes of the taxes  
7 imposed under this chapter on any activity not included in the  
8 definition of apportionable activities in RCW 82.04.460, a person is  
9 deemed to have substantial nexus with this state if the person has a  
10 physical presence in this state, which need only be demonstrably more  
11 than a slightest presence. For purposes of this subsection, a person  
12 is physically present in this state if the person has property or  
13 employees in this state. A person is also physically present in this  
14 state if the person, either directly or through an agent or other  
15 representative, engages in activities in this state that are  
16 significantly associated with the person's ability to establish or  
17 maintain a market for its products in this state.

18 NEW SECTION. **Sec. 105.** A new section is added to chapter 82.04  
19 RCW to read as follows:

20 (1) The apportionable income of a person within the scope of RCW  
21 82.04.460(1) is apportioned to Washington by multiplying its  
22 apportionable income by the receipts factor. Persons who are subject  
23 to tax under more than one of the tax classifications enumerated in RCW  
24 82.04.460(3)(a) (i) through (ix) must calculate a separate receipts  
25 factor for each tax classification that the person is taxable under.

26 (2) For purposes of subsection (1) of this section, the receipts  
27 factor is a fraction and is calculated as provided in subsections (3)  
28 and (4) of this section and section 106 of this act.

29 (3)(a) The numerator of the receipts factor is the total gross  
30 income of the business of the taxpayer attributable to this state  
31 during the tax year from engaging in an apportionable activity. The  
32 denominator of the receipts factor is the total gross income of the  
33 business of the taxpayer from engaging in an apportionable activity  
34 everywhere in the world during the tax year.

35 (b) Except as otherwise provided in this section, for purposes of  
36 computing the receipts factor, gross income of the business generated  
37 from each apportionable activity is attributable to the state:

1 (i) Where the customer received the benefit of the taxpayer's  
2 service or, in the case of gross income from royalties, where the  
3 customer used the taxpayer's intangible property.

4 (ii) If the customer received the benefit of the service or used  
5 the intangible property in more than one state, gross income of the  
6 business must be attributed to the state in which the benefit of the  
7 service was primarily received or in which the intangible property was  
8 primarily used.

9 (iii) If the taxpayer is unable to attribute gross income of the  
10 business under the provisions of (b)(i) or (ii) of this subsection (3),  
11 gross income of the business must be attributed to the state from which  
12 the customer ordered the service or, in the case of royalties, the  
13 office of the customer from which the royalty agreement with the  
14 taxpayer was negotiated.

15 (iv) If the taxpayer is unable to attribute gross income of the  
16 business under the provisions of (b)(i), (ii), or (iii) of this  
17 subsection (3), gross income of the business must be attributed to the  
18 state to which the billing statements or invoices are sent to the  
19 customer by the taxpayer.

20 (v) If the taxpayer is unable to attribute gross income of the  
21 business under the provisions of (b)(i), (ii), (iii), or (iv) of this  
22 subsection (3), gross income of the business must be attributed to the  
23 state from which the customer sends payment to the taxpayer.

24 (vi) If the taxpayer is unable to attribute gross income of the  
25 business under the provisions of (b)(i), (ii), (iii), (iv), or (v) of  
26 this subsection (3), gross income of the business must be attributed to  
27 the state where the customer is located as indicated by the customer's  
28 address: (A) Shown in the taxpayer's business records maintained in  
29 the regular course of business; or (B) obtained during consummation of  
30 the sale or the negotiation of the contract for services or for the use  
31 of the taxpayer's intangible property, including any address of a  
32 customer's payment instrument when readily available to the taxpayer  
33 and no other address is available.

34 (vii) If the taxpayer is unable to attribute gross income of the  
35 business under the provisions of (b)(i), (ii), (iii), (iv), (v), or  
36 (vi) of this subsection (3), gross income of the business must be  
37 attributed to the commercial domicile of the taxpayer.

1 (viii) For purposes of this subsection (3)(b), "customer" means a  
2 person or entity to whom the taxpayer makes a sale or renders services  
3 or from whom the taxpayer otherwise receives gross income of the  
4 business. "Customer" includes anyone who pays royalties or charges in  
5 the nature of royalties for the use of the taxpayer's intangible  
6 property.

7 (c) Gross income of the business from engaging in an apportionable  
8 activity must be excluded from the denominator of the receipts factor  
9 if, in respect to such activity, at least some of the activity is  
10 performed in this state, and the gross income is attributable under (b)  
11 of this subsection (3) to a state in which the taxpayer is not taxable.  
12 For purposes of this subsection (3)(c), "not taxable" means that the  
13 taxpayer is not subject to a business activities tax by that state,  
14 except that a taxpayer is taxable in a state in which it would be  
15 deemed to have substantial nexus with that state under the standards in  
16 section 104(1) of this act regardless of whether that state imposes  
17 such a tax. "Business activities tax" means a tax measured by the  
18 amount of, or economic results of, business activity conducted in a  
19 state. The term includes taxes measured in whole or in part on net  
20 income or gross income or receipts. "Business activities tax" does not  
21 include a sales tax, use tax, or a similar transaction tax, imposed on  
22 the sale or acquisition of goods or services, whether or not  
23 denominated a gross receipts tax or a tax imposed on the privilege of  
24 doing business.

25 (d) This subsection (3) does not apply to financial institutions  
26 with respect to apportionable income taxable under RCW 82.04.290.  
27 Financial institutions must calculate the receipts factor as provided  
28 in section 106 of this act and subsection (4) of this section with  
29 respect to apportionable income taxable under RCW 82.04.290. For  
30 purposes of this subsection, "financial institution" has the same  
31 meaning as in section 106 of this act.

32 (4) A taxpayer may calculate the receipts factor for the current  
33 tax year based on the most recent calendar year for which information  
34 is available for the full calendar year. If a taxpayer does not  
35 calculate the receipts factor for the current tax year based on  
36 previous calendar year information as authorized in this subsection,  
37 the business must use current year information to calculate the  
38 receipts factor for the current tax year. In either case, a taxpayer



1 must correct the reporting for the current tax year when complete  
2 information is available to calculate the receipts factor for that  
3 year, but not later than October 31st of the following tax year.  
4 Interest will apply to any additional tax due on a corrected tax  
5 return. Interest must be assessed at the rate provided for delinquent  
6 excise taxes under chapter 82.32 RCW, retroactively to the date the  
7 original return was due, and will accrue until the additional taxes are  
8 paid. Penalties as provided in RCW 82.32.090 will apply to any such  
9 additional tax due only if the current tax year reporting is not  
10 corrected and the additional tax is not paid by October 31st of the  
11 following tax year. Interest as provided in RCW 82.32.060 will apply  
12 to any tax paid in excess of that properly due on a return as a result  
13 of a taxpayer using previous calendar year data or incomplete current-  
14 year data to calculate the receipts factor.

15 (5) Unless the context clearly requires otherwise, the definitions  
16 in this subsection apply throughout this section.

17 (a) "Apportionable activities" and "apportionable income" have the  
18 same meaning as in RCW 82.04.460.

19 (b) "State" has the same meaning as in section 106 of this act.

20 NEW SECTION. **Sec. 106.** A new section is added to chapter 82.04  
21 RCW to read as follows:

22 (1) A financial institution must, for purposes of apportioning  
23 gross income of the business taxable under RCW 82.04.290 using the  
24 apportionment method provided in section 105(1) of this act, calculate  
25 the receipts factor as provided in this section and section 105(4) of  
26 this act. Financial institutions that are subject to tax under any  
27 other tax classification enumerated in RCW 82.04.460(3)(a) (i) through  
28 (v) and (vii) through (ix) must calculate a separate receipts factor,  
29 as provided in section 105 of this act, for each of the other tax  
30 classifications that the financial institution is taxable under.

31 (2)(a)(i) The numerator of the receipts factor includes gross  
32 income from interest, fees, and penalties on loans secured by real  
33 property, personal property, or both real and personal property, if the  
34 real or personal property is located within this state. If the  
35 property securing the loan is located both within this state and one or  
36 more other states, the income described in this subsection (2)(a)(i) is  
37 included in the numerator of the receipts factor if more than fifty

1 percent of the fair market value of the real or personal property is  
2 located within this state. If more than fifty percent of the fair  
3 market value of the real or personal property is not located within any  
4 one state, then the income described in this subsection (2)(a)(i) is  
5 included in the numerator of the receipts factor if the borrower is  
6 located in this state.

7 (ii) The denominator of the receipts factor includes gross income  
8 from interest, fees, and penalties on loans secured by real property,  
9 personal property, or both real and personal property, wherever the  
10 property is located.

11 (iii) The determination of whether the real or personal property  
12 securing a loan is located within this state must be made as of the  
13 time the original agreement was made and any and all subsequent  
14 substitutions of collateral must be disregarded.

15 (b) The numerator of the receipts factor includes gross income from  
16 interest, fees, and penalties on loans not secured by real or personal  
17 property if the borrower is located in this state. The denominator of  
18 the receipts factor includes gross income from interest, fees, and  
19 penalties on loans that are not secured by real or personal property,  
20 regardless of where the borrower is located.

21 (c) The receipts factor includes gross income from net gains, which  
22 may not be less than zero, on the sale of loans. Net gains on the sale  
23 of loans includes income recorded under the coupon stripping rules of  
24 26 U.S.C. Sec. 1286 of the federal internal revenue code of 1986, as  
25 existing on April 1, 2010.

26 (i) The amount of net gains, which may not be less than zero, on  
27 the sale of loans secured by real property, personal property, or both  
28 real and personal property, included in the numerator of the receipts  
29 factor is determined by multiplying such net gains by a fraction. The  
30 numerator of the fraction is the amount included in the numerator of  
31 the receipts factor under (a) of this subsection (2). The denominator  
32 of the fraction is the amount included in the denominator of the  
33 receipts factor under (a) of this subsection (2).

34 (ii) The amount of net gains, which may not be less than zero, from  
35 the sale of loans not secured by real or personal property included in  
36 the numerator of the receipts factor is determined by multiplying such  
37 net gains by a fraction. The numerator of the fraction is the amount  
38 included in the numerator of the receipts factor under (b) of this

subsection (2). The denominator of the fraction is the amount included in the denominator of the receipts factor under (b) of this subsection (2).

(iii) The denominator of the receipts factor includes gross income from net gains, which may not be less than zero, on all sales of loans.

(d) Loan servicing fees are included in the receipts factor as provided in (d)(i) and (ii) of this subsection (2).

(i)(A)(I) The numerator of the receipts factor includes gross income from loan servicing fees derived from loans secured by real property, personal property, or both real and personal property, multiplied by a fraction. The numerator of the fraction is the amount included in the numerator of the receipts factor under (a) of this subsection (2). The denominator of the fraction is the amount included in the denominator of the receipts factor under (a) of this subsection (2).

(II) The denominator of the receipts factor includes gross income from all loan servicing fees derived from loans secured by real property, personal property, or both real and personal property.

(B)(I) The numerator of the receipts factor includes gross income from loan servicing fees derived from loans not secured by real or personal property multiplied by a fraction. The numerator of the fraction is the amount included in the numerator of the receipts factor under (b) of this subsection (2). The denominator of the fraction is the amount included in the denominator of the receipts factor under (b) of this subsection (2).

(II) The denominator of the receipts factor includes gross income from all loan servicing fees derived from loans not secured by real or personal property.

(ii) If the financial institution receives loan servicing fees for servicing either the secured or the unsecured loans of another, the numerator of the receipts factor includes such fees if the borrower is located in this state. The denominator of the receipts factor includes all such fees.

(e)(i) Interest, dividends, net gains (which may not be less than zero), and other income from investment assets and activities and from trading assets and activities, as provided in this subsection (2)(e), are included in the receipts factor. Investment assets and activities and trading assets and activities include but are not limited to:

1 Investment securities; trading account assets; federal funds;  
2 securities purchased and sold under agreements to resell or repurchase;  
3 options; futures contracts; forward contracts; notional principal  
4 contracts such as swaps; equities; and foreign currency transactions.

5 (ii) The numerator of the receipts factor includes gross income  
6 from interest, dividends, net gains (which may not be less than zero),  
7 and other receipts from investment assets and activities and from  
8 trading assets and activities described in (e)(i) of this subsection  
9 (2) that are attributable to this state. The denominator of the  
10 receipts factor includes all such gross income wherever earned.

11 (A) The amount of interest, dividends, net gains (which may not be  
12 less than zero), and other income from investment assets and activities  
13 in the investment account to be attributed to this state and included  
14 in the numerator of the receipts factor is determined by multiplying  
15 all such income from such assets and activities by a fraction. The  
16 numerator of the fraction is the average value of such assets that are  
17 properly assigned to a regular place of business of the financial  
18 institution within this state. The denominator of the fraction is the  
19 average value of all such assets.

20 (B)(I) The amount of interest from federal funds sold and purchased  
21 and from securities purchased under resale agreements and securities  
22 sold under repurchase agreements attributable to this state and  
23 included in the numerator of the receipts factor is determined by  
24 multiplying the amount described in (e)(ii)(B)(II) of this subsection  
25 (2) from such funds and such securities by a fraction. The numerator  
26 of the fraction is the average value of federal funds sold and  
27 securities purchased under agreements to resell that are properly  
28 assigned to a regular place of business of the financial institution  
29 within this state. The denominator of the fraction is the average  
30 value of all such funds and such securities.

31 (II) The amount used for purposes of making the calculation in  
32 (e)(ii)(B)(I) of this subsection (2) is the amount by which interest  
33 from federal funds sold and securities purchased under resale  
34 agreements exceeds interest expense on federal funds purchased and  
35 securities sold under repurchase agreements.

36 (C)(I) The amount of interest, dividends, gains and other income  
37 from trading assets and activities, including but not limited to assets  
38 and activities in the matched book, in the arbitrage book, and foreign

1 currency transactions, but excluding amounts described in (e)(ii)(A) or  
2 (B) of this subsection (2), attributable to this state and included in  
3 the numerator of the receipts factor is determined by multiplying the  
4 amount described in (e)(ii)(C)(II) of this subsection (2) by a  
5 fraction. The numerator of the fraction is the average value of such  
6 trading assets that are properly assigned to a regular place of  
7 business of the financial institution within this state. The  
8 denominator of the fraction is the average value of all such assets.

9 (II) The amount used for purposes of making the calculation in  
10 (e)(ii)(C)(I) of this subsection (2) is the amount by which interest,  
11 dividends, gains and other receipts from trading assets and activities,  
12 including but not limited to assets and activities in the matched book,  
13 in the arbitrage book, and foreign currency transactions, exceed  
14 amounts paid in lieu of interest, amounts paid in lieu of dividends,  
15 and losses from such assets and activities.

16 (D) For purposes of this subsection (2)(e)(ii), average value must  
17 be determined using the rules for determining the average value of  
18 property set forth in section 104(2) of this act.

19 (iii) In lieu of using the method set forth in (e)(ii) of this  
20 subsection (2), the financial institution may elect, or the department  
21 may require, in order to fairly represent the business activity of the  
22 financial institution in this state, the use of the method set forth in  
23 this subsection (2)(e)(iii).

24 (A) The amount of interest, dividends, net gains (which may not be  
25 less than zero), and other income from investment assets and activities  
26 in the investment account to be attributed to this state and included  
27 in the numerator of the receipts factor is determined by multiplying  
28 all such income from such assets and activities by a fraction. The  
29 numerator of the fraction is the gross income from such assets and  
30 activities that are properly assigned to a regular place of business of  
31 the financial institution within this state. The denominator of the  
32 fraction is the gross income from all such assets and activities.

33 (B) The amount of interest from federal funds sold and purchased  
34 and from securities purchased under resale agreements and securities  
35 sold under repurchase agreements attributable to this state and  
36 included in the numerator of the receipts factor is determined by  
37 multiplying the amount described in (e)(ii)(B)(II) of this subsection  
38 (2) from such funds and such securities by a fraction. The numerator

1 of the fraction is the gross income from such funds and such securities  
2 that are properly assigned to a regular place of business of the  
3 financial institution within this state. The denominator of the  
4 fraction is the gross income from all such funds and such securities.

5 (C) The amount of interest, dividends, gains and other receipts  
6 from trading assets and activities, including but not limited to assets  
7 and activities in the matched book, in the arbitrage book, and foreign  
8 currency transactions, but excluding amounts described in (e)(ii)(A) or  
9 (B) of this subsection (2), attributable to this state and included in  
10 the numerator of the receipts factor is determined by multiplying the  
11 amount described in (e)(ii)(C)(II) of this subsection (2) by a  
12 fraction. The numerator of the fraction is the gross income from such  
13 trading assets and activities that are properly assigned to a regular  
14 place of business of the financial institution within this state. The  
15 denominator of the fraction is the gross income from all such assets  
16 and activities.

17 (iv) If the financial institution elects or is required by the  
18 department to use the method set forth in (e)(iii) of this subsection  
19 (2), it must use this method for subsequent tax returns unless the  
20 financial institution receives prior permission from the department to  
21 use, or the department requires, a different method.

22 (v) The financial institution has the burden of proving that an  
23 investment asset or activity or trading asset or activity was properly  
24 assigned to a regular place of business outside of this state by  
25 demonstrating that the day-to-day decisions regarding the asset or  
26 activity occurred at a regular place of business outside this state.  
27 If the day-to-day decisions regarding an investment asset or activity  
28 or trading asset or activity occur at more than one regular place of  
29 business and one such regular place of business is in this state and  
30 one such regular place of business is outside this state, such asset or  
31 activity is considered to be located at the regular place of business  
32 of the financial institution where the investment or trading policies  
33 or guidelines with respect to the asset or activity are established.  
34 Such policies and guidelines are presumed, subject to rebuttal by  
35 preponderance of the evidence, to be established at the commercial  
36 domicile of the financial institution.

37 (f) The numerator of the receipts factor includes gross income from  
38 interest, fees, and penalties on credit card receivables, and gross

1 income from fees charged to cardholders, such as annual fees, if the  
2 billing address of the cardholder is in this state. The denominator of  
3 the receipts factor includes gross income from interest, fees, and  
4 penalties on all credit card receivables, and gross income from fees  
5 charged to all cardholders, such as annual fees.

6 (g)(i) The numerator of the receipts factor includes gross income  
7 from net gains, which may not be less than zero, from the sale of  
8 credit card receivables multiplied by a fraction. The numerator of the  
9 fraction is the amount included in the numerator of the receipts factor  
10 under (f) of this subsection (2). The denominator of the fraction is  
11 the amount included in the denominator of the receipts factor under (f)  
12 of this subsection (2).

13 (ii) The denominator of the receipts factor includes gross income  
14 from net gains, which may not be less than zero, from all sales of  
15 credit card receivables.

16 (h)(i) The numerator of the receipts factor includes gross income  
17 from all credit card issuer's reimbursement fees multiplied by a  
18 fraction. The numerator of the fraction is the amount included in the  
19 numerator of the receipts factor under (f) of this subsection (2). The  
20 denominator of the fraction is the amount included in the denominator  
21 of the receipts factor under (f) of this subsection (2).

22 (ii) The denominator of the receipts factor includes gross income  
23 from all credit card issuer's reimbursement fees.

24 (i) The numerator of the receipts factor includes gross income from  
25 merchant discounts if the commercial domicile of the merchant is in  
26 this state. The denominator of the receipts factor includes gross  
27 income from all merchant discounts. For purposes of this subsection  
28 (2)(i), gross income must be computed net of any cardholder charge  
29 backs but may not be reduced by any interchange transaction fees or by  
30 any issuer's reimbursement fees paid to another for charges made by its  
31 cardholders.

32 (j) Apportionable income that would be attributable under this  
33 subsection (2) to a state in which the financial institution is not  
34 taxable must be excluded from the denominator of the receipts factor if  
35 at least some of the activity that generated the income is performed in  
36 this state, and the gross income is attributable under this subsection  
37 (2) to a state in which the taxpayer is not taxable. For purposes of

1 this subsection (2)(j), "not taxable" has the same meaning as in  
2 section 105 of this act.

3 (k)(i) The numerator of the receipts factor includes apportionable  
4 income taxable under RCW 82.04.290 and not otherwise included in the  
5 receipts factor under this subsection (2) if the activity producing the  
6 apportionable income is performed in this state. If the activity is  
7 performed both inside and outside this state, the numerator of the  
8 receipts factor includes apportionable income taxable under RCW  
9 82.04.290 and not otherwise included in the receipts factor under this  
10 subsection (2) if a greater proportion of the activity producing the  
11 apportionable income is performed in this state based on cost of  
12 performance.

13 (ii) The denominator of the receipts factor includes apportionable  
14 income taxable under RCW 82.04.290 from activities performed  
15 everywhere, where the apportionable income taxable under RCW 82.04.290  
16 is not otherwise included in the receipts factor under this subsection  
17 (2).

18 (3) Except as otherwise provided in subsection (4) of this section,  
19 the definitions in the multistate tax commission's recommended formula  
20 for the apportionment and allocation of net income of financial  
21 institutions, adopted November 17, 1994, as existing on the effective  
22 date of this section, apply to this section.

23 (4) Unless the context clearly requires otherwise, the definitions  
24 in this subsection apply throughout this section.

25 (a) "Apportionable income" has the same meaning as in RCW  
26 82.04.460.

27 (b) "Credit card" means a card or device existing for the purpose  
28 of obtaining money, property, labor, or services on credit.

29 (c) "Financial institution" has the same meaning as in WAC 458-20-  
30 14601. However, the department may not make any substantive changes to  
31 the definition of "financial institution" in WAC 458-20-14601 unless  
32 the changes implement a legislative amendment to this definition of  
33 financial institution.

34 (d) "State" means a state of the United States, the District of  
35 Columbia, the Commonwealth of Puerto Rico, any territory or possession  
36 of the United States, or any foreign country or political subdivision  
37 of a foreign country.



1       **Sec. 107.** RCW 82.04.2907 and 2009 c 535 s 407 are each amended to  
2 read as follows:

3       (1) Upon every person engaging within this state in the business of  
4 receiving income from royalties (~~((or charges in the nature of royalties~~  
5 ~~for the granting of intangible rights, such as copyrights, licenses,~~  
6 ~~patents, or franchise fees))~~), the amount of tax with respect to  
7 (~~((such))~~) the business (~~((shall be))~~) is equal to the gross income from  
8 royalties (~~((or charges in the nature of royalties from the business))~~)  
9 multiplied by the rate of 0.484 percent.

10       (2) For the purposes of this section, "gross income from royalties"  
11 means compensation for the use of intangible property, (~~((such as))~~)  
12 including charges in the nature of royalties, regardless of where the  
13 intangible property will be used. For purposes of this subsection,  
14 "intangible property" includes copyrights, patents, licenses,  
15 franchises, trademarks, trade names, and similar items. (~~((It))~~) "Gross  
16 income from royalties" does not include compensation for any natural  
17 resource, the licensing of prewritten computer software to the end  
18 user, or the licensing (~~((or use))~~) of digital goods, digital codes, or  
19 digital automated services to the end user as defined in RCW  
20 82.04.190(11).

21       **Sec. 108.** RCW 82.04.460 and 2004 c 174 s 6 are each amended to  
22 read as follows:

23       (1) Except as otherwise provided in this section, any person  
24 (~~((rendering services))~~) earning apportionable income taxable under (~~((RCW~~  
25 ~~82.04.290 or 82.04.2908))~~) this chapter and (~~((maintaining places of~~  
26 ~~business both within and without this state which contribute to the~~  
27 ~~rendition of such services shall))~~) also taxable in another state, must,  
28 for the purpose of computing tax liability under (~~((RCW 82.04.290 or~~  
29 ~~82.04.2908))~~) this chapter, apportion to this state, in accordance with  
30 section 105 of this act, that portion of the person's (~~((gross))~~)  
31 apportionable income (~~((which is))~~) derived from (~~((services rendered))~~)  
32 business activities performed within this state. (~~((Where such~~  
33 ~~apportionment cannot be accurately made by separate accounting methods,~~  
34 ~~the taxpayer shall apportion to this state that proportion of the~~  
35 ~~taxpayer's total income which the cost of doing business within the~~  
36 ~~state bears to the total cost of doing business both within and without~~  
37 ~~the state.))~~)

1       (2) ~~((Notwithstanding the provision of subsection (1) of this~~  
2 ~~section, persons doing business both within and without the state who~~  
3 ~~receive gross income from service charges, as defined in RCW 63.14.010~~  
4 ~~(relating to amounts charged for granting the right or privilege to~~  
5 ~~make deferred or installment payments) or who receive gross income from~~  
6 ~~engaging in business as financial institutions within the scope of~~  
7 ~~chapter 82.14A RCW (relating to city taxes on financial institutions)~~  
8 ~~shall apportion or allocate gross income taxable under RCW 82.04.290 to~~  
9 ~~this state pursuant to rules promulgated by the department consistent~~  
10 ~~with uniform rules for apportionment or allocation developed by the~~  
11 ~~states.~~

12       ~~(3))~~ The department ~~((shall))~~ may by rule provide a method or  
13 methods of apportioning or allocating gross income derived from sales  
14 of telecommunications service and competitive telephone service~~((s))~~  
15 taxed under this chapter, if the gross proceeds of sales subject to tax  
16 under this chapter do not fairly represent the extent of the taxpayer's  
17 income attributable to this state. ~~((The rules shall be, so far as~~  
18 ~~feasible, consistent with the methods of apportionment contained in~~  
19 ~~this section and shall require the consideration of those facts,~~  
20 ~~circumstances, and apportionment factors as will result in an equitable~~  
21 ~~and constitutionally permissible division of the services.))~~ The rule  
22 must provide for an equitable and constitutionally permissible division  
23 of the tax base.

24       (3) For purposes of this section, the following definitions apply  
25 unless the context clearly requires otherwise:

26       (a) "Apportionable income" means gross income of the business  
27 generated from engaging in apportionable activities, including income  
28 received from apportionable activities performed outside this state if  
29 the income would be taxable under this chapter if received from  
30 activities in this state, less the exemptions and deductions allowable  
31 under this chapter. For purposes of this subsection, "apportionable  
32 activities" means only those activities taxed under:

33       (i) RCW 82.04.255;

34       (ii) RCW 82.04.260 (3), (4), (5), (6), (7), (8), (9), and (12);

35       (iii) RCW 82.04.280(5);

36       (iv) RCW 82.04.285;

37       (v) RCW 82.04.286;

38       (vi) RCW 82.04.290;

1       (vii) RCW 82.04.2907;  
2       (viii) RCW 82.04.2908; and  
3       (ix) RCW 82.04.260(13), 82.04.263, and 82.04.280(1), but only to  
4       the extent of any activity that would be taxable under any of the  
5       provisions enumerated under (a)(i) through (viii) of this subsection  
6       (3) if the tax classifications in RCW 82.04.260(13), 82.04.263, and  
7       82.04.280(1) did not exist.

8       (b)(i) "Taxable in another state" means that the taxpayer is  
9       subject to a business activities tax by another state on its income  
10      received from engaging in apportionable activities; or the taxpayer is  
11      not subject to a business activities tax by another state on its income  
12      received from engaging in apportionable activities, but any other state  
13      has jurisdiction to subject the taxpayer to a business activities tax  
14      on such income under the substantial nexus standards in section 104(1)  
15      of this act.

16      (ii) For purposes of this subsection (3)(b):

17      (A) "Business activities tax" has the same meaning as in section  
18      105 of this act; and

19      (B) "State" has the same meaning as in section 106 of this act.

## 20                                   PART II

### 21                                   Tax Avoidance Transactions

22      NEW SECTION.   **Sec. 201.**   A new section is added to chapter 82.32  
23      RCW to read as follows:

24      (1)(a) Unless otherwise specifically provided in statute, the  
25      department must respect the form of a transaction, except where the  
26      form of the transaction or a related series of transactions is adopted  
27      for the purpose of:

28      (i) Disguising income received, or otherwise avoiding tax on  
29      income, from a person that is not affiliated with the taxpayer;

30      (ii) Disguising the purchase or sale of property or services from  
31      or to a person that is not affiliated with the taxpayer; or

32      (iii) Avoiding the tax imposed in RCW 82.12.020 on the use of  
33      property in this state that is owned by an entity organized outside of  
34      Washington.

35      (b) For purposes of this subsection, "affiliated" means under  
36      common control. "Control" means the possession, directly or

1 indirectly, of more than fifty percent of the power to direct or cause  
2 the direction of the management and policies of a person, whether  
3 through the ownership of voting shares, by contract, or otherwise.

4 (2)(a) The department must, as resources allow, adopt rules to  
5 assist in determining when to disregard the form of a transaction or a  
6 related series of transactions adopted for the purposes described in  
7 subsection (1)(a)(i) through (iii) of this section. In adopting rules,  
8 the department may consider the following judicial doctrines, except to  
9 the extent such doctrines are inconsistent with express provisions  
10 contained in Washington state statutes:

- 11 (i) The sham transaction doctrine;
- 12 (ii) The economic substance doctrine;
- 13 (iii) The business purpose doctrine;
- 14 (iv) The substance over form doctrine;
- 15 (v) The step transaction doctrine; and
- 16 (vi) The assignment of income doctrine.

17 (b) The adoption of a rule as required under this subsection is not  
18 a condition precedent for the department to use the authority provided  
19 in this section. Any rules adopted under this section must include  
20 examples of transactions that the department will disregard for tax  
21 purposes.

22 (3) The provisions of this section are cumulative and nonexclusive  
23 and do not affect any other remedies provided to the department under  
24 statutory or common law.

25 (4) This section expires July 1, 2011.

26 NEW SECTION. **Sec. 202.** A new section is added to chapter 82.32  
27 RCW to read as follows:

28 (1)(a) The department may not use section 201 of this act to  
29 disregard any transaction, plan, or arrangement initiated before April  
30 1, 2010, if, in respect to such transaction, plan, or arrangement, the  
31 taxpayer had reported its tax liability in conformance with either  
32 specific written instructions provided by the department to the  
33 taxpayer, a determination published under the authority of RCW  
34 82.32.410, or other document published by the department.

35 (b) This section does not apply if the transaction, plan, or  
36 arrangement engaged in by the taxpayer differs materially from the

1 transaction, plan, or arrangement that was addressed in the specific  
2 written instructions, published determination, or other published  
3 document.

4 (2) For purposes of this section, "specific written instructions"  
5 means tax reporting instructions provided to a taxpayer and which  
6 specifically identifies the taxpayer to whom the instructions apply.  
7 Specific written instructions may be provided as part of an audit, tax  
8 assessment, determination, closing agreement, or in response to a  
9 binding ruling request.

10 **Sec. 203.** RCW 82.32.090 and 2006 c 256 s 6 are each amended to  
11 read as follows:

12 (1) If payment of any tax due on a return to be filed by a taxpayer  
13 is not received by the department of revenue by the due date, there  
14 (~~((shall be))~~) is assessed a penalty of five percent of the amount of the  
15 tax; and if the tax is not received on or before the last day of the  
16 month following the due date, there (~~((shall be))~~) is assessed a total  
17 penalty of fifteen percent of the amount of the tax under this  
18 subsection; and if the tax is not received on or before the last day of  
19 the second month following the due date, there (~~((shall be))~~) is assessed  
20 a total penalty of twenty-five percent of the amount of the tax under  
21 this subsection. No penalty so added shall be less than five dollars.

22 (2) If the department of revenue determines that any tax has been  
23 substantially underpaid, there (~~((shall be))~~) is assessed a penalty of  
24 five percent of the amount of the tax determined by the department to  
25 be due. If payment of any tax determined by the department to be due  
26 is not received by the department by the due date specified in the  
27 notice, or any extension thereof, there (~~((shall be))~~) is assessed a  
28 total penalty of fifteen percent of the amount of the tax under this  
29 subsection; and if payment of any tax determined by the department to  
30 be due is not received on or before the thirtieth day following the due  
31 date specified in the notice of tax due, or any extension thereof,  
32 there (~~((shall be))~~) is assessed a total penalty of twenty-five percent  
33 of the amount of the tax under this subsection. No penalty so added  
34 (~~((shall))~~) may be less than five dollars. As used in this section,  
35 "substantially underpaid" means that the taxpayer has paid less than  
36 eighty percent of the amount of tax determined by the department to be

1 due for all of the types of taxes included in, and for the entire  
2 period of time covered by, the department's examination, and the amount  
3 of underpayment is at least one thousand dollars.

4 (3) If a warrant (~~((be))~~) is issued by the department (~~((of revenue))~~)  
5 for the collection of taxes, increases, and penalties, there (~~((shall~~  
6 ~~be))~~) is added thereto a penalty of ten percent of the amount of the  
7 tax, but not less than ten dollars.

8 (4) If the department finds that a person has engaged in any  
9 business or performed any act upon which a tax is imposed under this  
10 title and that person has not obtained from the department a  
11 registration certificate as required by RCW 82.32.030, the department  
12 (~~((shall))~~) must impose a penalty of five percent of the amount of tax  
13 due from that person for the period that the person was not registered  
14 as required by RCW 82.32.030. The department (~~((shall))~~) may not impose  
15 the penalty under this subsection (4) if a person who has engaged in  
16 business taxable under this title without first having registered as  
17 required by RCW 82.32.030, prior to any notification by the department  
18 of the need to register, obtains a registration certificate from the  
19 department.

20 (5) If the department finds that all or any part of a deficiency  
21 resulted from the disregard of specific written instructions as to  
22 reporting or tax liabilities, the department (~~((shall))~~) must add a  
23 penalty of ten percent of the amount of the additional tax found due  
24 because of the failure to follow the instructions. A taxpayer  
25 disregards specific written instructions when the department (~~((of~~  
26 ~~revenue))~~) has informed the taxpayer in writing of the taxpayer's tax  
27 obligations and the taxpayer fails to act in accordance with those  
28 instructions unless the department has not issued final instructions  
29 because the matter is under appeal pursuant to this chapter or  
30 departmental regulations. The department (~~((shall))~~) may not assess the  
31 penalty under this section upon any taxpayer who has made a good faith  
32 effort to comply with the specific written instructions provided by the  
33 department to that taxpayer. Specific written instructions may be  
34 given as a part of a tax assessment, audit, determination, or closing  
35 agreement, provided that such specific written instructions (~~((shall))~~)  
36 apply only to the taxpayer addressed or referenced on such documents.  
37 Any specific written instructions by the department (~~((of revenue~~

1 ~~shall~~) must be clearly identified as such and (~~shall~~) must inform  
2 the taxpayer that failure to follow the instructions may subject the  
3 taxpayer to the penalties imposed by this subsection.

4 (6) If the department finds that all or any part of a deficiency  
5 resulted from engaging in a disregarded transaction, as described in  
6 section 201(1)(a) (i), (ii), or (iii) of this act, the department must  
7 assess a penalty of thirty-five percent of the additional tax found to  
8 be due as a result of engaging in a transaction disregarded by the  
9 department under section 201(1)(a) (i), (ii), or (iii) of this act.  
10 The penalty provided in this subsection may be assessed together with  
11 any other applicable penalties provided in this section on the same tax  
12 found to be due, except for the evasion penalty provided in subsection  
13 (7) of this section. The department may not assess the penalty under  
14 this subsection if, before the department discovers the taxpayer's use  
15 of a transaction described under section 201(1)(a) (i), (ii), or (iii)  
16 of this act, the taxpayer discloses its participation in the  
17 transaction to the department.

18 (7) If the department finds that all or any part of the deficiency  
19 resulted from an intent to evade the tax payable (~~hereunder~~), a  
20 further penalty of fifty percent of the additional tax found to be due  
21 (~~shall~~) must be added.

22 (~~(7)~~) (8) The penalties imposed under subsections (1) through (4)  
23 of this section can each be imposed on the same tax found to be due.  
24 This subsection does not prohibit or restrict the application of other  
25 penalties authorized by law.

26 (~~(8)~~) (9) The department (~~of revenue~~) may not impose both the  
27 evasion penalty and the penalty for disregarding specific written  
28 instructions or the penalty provided in subsection (6) of this section  
29 on the same tax found to be due.

30 (~~(9)~~) (10) For the purposes of this section, "return" means any  
31 document a person is required by the state of Washington to file to  
32 satisfy or establish a tax or fee obligation that is administered or  
33 collected by the department (~~of revenue~~), and that has a statutorily  
34 defined due date.

35 NEW SECTION. Sec. 204. (1) The legislature finds that this  
36 state's tax policy with respect to the taxation of transactions between  
37 affiliated entities and the income derived from such transactions

1 (intercompany transactions) has motivated some taxpayers to engage in  
2 transactions designed solely or primarily to minimize the tax effects  
3 of intercompany transactions. The legislature further finds that some  
4 intercompany transactions result from taxpayers that are required to  
5 establish affiliated entities to comply with regulatory mandates and  
6 that transactions between such affiliates effectively increases the tax  
7 burden in this state on the affiliated group of entities.

8 (2) Therefore, as existing resources allow, the department of  
9 revenue is directed to conduct a review of the state's tax policy with  
10 respect to the taxation of intercompany transactions. The review must  
11 include the impacts of such transactions under the state's business and  
12 occupation tax and state and local sales and use taxes. The department  
13 may include other taxes in the review as it deems appropriate.

14 (3) In conducting the review, the department must examine how this  
15 state's tax policy compares to the tax policy of other states with  
16 respect to the taxation of intercompany transactions. The department's  
17 review must include an analysis of potential alternatives to the  
18 current policy of taxing intercompany transactions, including their  
19 estimated revenue impacts if practicable.

20 (4) In conducting this review, the department may seek input from  
21 members of the business community and others as it deems appropriate.

22 (5) The department must report its findings to the fiscal  
23 committees of the house of representatives and senate by December 1,  
24 2010. However, if the department has not completed its review by  
25 December 1, 2010, the department must provide the fiscal committees of  
26 the legislature with a brief status report by December 1, 2010, and the  
27 final report by December 1, 2011.

28 **Sec. 205.** RCW 82.12.020 and 2009 c 535 s 305 are each amended to  
29 read as follows:

30 (1) There is ~~((hereby))~~ levied and ~~((there shall be))~~ collected  
31 from every person in this state a tax or excise for the privilege of  
32 using within this state as a consumer any:

33 (a) Article of tangible personal property ~~((purchased at retail,~~  
34 ~~or))~~ acquired by ~~((lease, gift, repossession, or bailment, or extracted~~  
35 ~~or produced or manufactured by the person so using the same, or~~  
36 ~~otherwise furnished to a person engaged in any business taxable under~~  
37 ~~RCW 82.04.280 (2) or (7))~~ the user in any manner, including tangible



1 personal property acquired at a casual or isolated sale, and including  
2 by-products used by the manufacturer thereof, except as otherwise  
3 provided in this chapter, irrespective of whether the article or  
4 similar articles are manufactured or are available for purchase within  
5 this state;

6 (b) Prewritten computer software, regardless of the method of  
7 delivery, but excluding prewritten computer software that is either  
8 provided free of charge or is provided for temporary use in viewing  
9 information, or both;

10 (c) Services defined as a retail sale in RCW 82.04.050 (2)(a) or  
11 (g), (3)(a), or (6)(b), excluding services defined as a retail sale in  
12 RCW 82.04.050(6)(b) that are provided free of charge;

13 (d) Extended warranty; or

14 (e)(i) Digital good, digital code, or digital automated service,  
15 including the use of any services provided by a seller exclusively in  
16 connection with digital goods, digital codes, or digital automated  
17 services, whether or not a separate charge is made for such services.

18 (ii) With respect to the use of digital goods, digital automated  
19 services, and digital codes acquired by purchase, the tax imposed in  
20 this subsection (1)(e) applies in respect to:

21 (A) Sales in which the seller has granted the purchaser the right  
22 of permanent use;

23 (B) Sales in which the seller has granted the purchaser a right of  
24 use that is less than permanent;

25 (C) Sales in which the purchaser is not obligated to make continued  
26 payment as a condition of the sale; and

27 (D) Sales in which the purchaser is obligated to make continued  
28 payment as a condition of the sale.

29 (iii) With respect to digital goods, digital automated services,  
30 and digital codes acquired other than by purchase, the tax imposed in  
31 this subsection (1)(e) applies regardless of whether or not the  
32 consumer has a right of permanent use or is obligated to make continued  
33 payment as a condition of use.

34 (2) The provisions of this chapter do not apply in respect to the  
35 use of any article of tangible personal property, extended warranty,  
36 digital good, digital code, digital automated service, or service  
37 taxable under RCW 82.04.050 (2)(a) or (g), (3)(a), or (6)(b), if the  
38 sale to, or the use by, the present user or the present user's bailor

1 or donor has already been subjected to the tax under chapter 82.08 RCW  
2 or this chapter and the tax has been paid by the present user or by the  
3 present user's bailor or donor.

4 (3)(a) Except as provided in this section, payment of the tax  
5 imposed by this chapter or chapter 82.08 RCW by one purchaser or user  
6 of tangible personal property, extended warranty, digital good, digital  
7 code, digital automated service, or other service does not have the  
8 effect of exempting any other purchaser or user of the same property,  
9 extended warranty, digital good, digital code, digital automated  
10 service, or other service from the taxes imposed by such chapters.

11 (b) The tax imposed by this chapter does not apply:

12 (i) If the sale to, or the use by, the present user or his or her  
13 bailor or donor has already been subjected to the tax under chapter  
14 82.08 RCW or this chapter and the tax has been paid by the present user  
15 or by his or her bailor or donor;

16 (ii) In respect to the use of any article of tangible personal  
17 property acquired by bailment and the tax has once been paid based on  
18 reasonable rental as determined by RCW 82.12.060 measured by the value  
19 of the article at time of first use multiplied by the tax rate imposed  
20 by chapter 82.08 RCW or this chapter as of the time of first use;

21 (iii) In respect to the use of any article of tangible personal  
22 property acquired by bailment, if the property was acquired by a  
23 previous bailee from the same bailor for use in the same general  
24 activity and the original bailment was prior to June 9, 1961; or

25 (iv) To the use of digital goods or digital automated services,  
26 which were obtained through the use of a digital code, if the sale of  
27 the digital code to, or the use of the digital code by, the present  
28 user or the present user's bailor or donor has already been subjected  
29 to the tax under chapter 82.08 RCW or this chapter and the tax has been  
30 paid by the present user or by the present user's bailor or donor.

31 (4)(a) Except as provided in (b) of this subsection (4), the tax is  
32 levied and must be collected in an amount equal to the value of the  
33 article used, value of the digital good or digital code used, value of  
34 the extended warranty used, or value of the service used by the  
35 taxpayer, multiplied by the applicable rates in effect for the retail  
36 sales tax under RCW 82.08.020.

37 (b) In the case of a seller required to collect use tax from the

1 purchaser, the tax must be collected in an amount equal to the purchase  
2 price multiplied by the applicable rate in effect for the retail sales  
3 tax under RCW 82.08.020.

4 (5) For purposes of the tax imposed in this section, "person"  
5 includes anyone within the definition of "buyer," "purchaser," and  
6 "consumer" in RCW 82.08.010.

7 **Sec. 206.** RCW 82.45.010 and 2008 c 116 s 3 and 2008 c 6 s 701 are  
8 each reenacted and amended to read as follows:

9 (1) As used in this chapter, the term "sale" (~~((shall have))~~) has its  
10 ordinary meaning and (~~((shall))~~) includes any conveyance, grant,  
11 assignment, quitclaim, or transfer of the ownership of or title to real  
12 property, including standing timber, or any estate or interest therein  
13 for a valuable consideration, and any contract for such conveyance,  
14 grant, assignment, quitclaim, or transfer, and any lease with an option  
15 to purchase real property, including standing timber, or any estate or  
16 interest therein or other contract under which possession of the  
17 property is given to the purchaser, or any other person at the  
18 purchaser's direction, and title to the property is retained by the  
19 vendor as security for the payment of the purchase price. The term  
20 also includes the grant, assignment, quitclaim, sale, or transfer of  
21 improvements constructed upon leased land.

22 (2)(a) The term "sale" also includes the transfer or acquisition  
23 within any twelve-month period of a controlling interest in any entity  
24 with an interest in real property located in this state for a valuable  
25 consideration.

26 (b) For the sole purpose of determining whether, pursuant to the  
27 exercise of an option, a controlling interest was transferred or  
28 acquired within a twelve-month period, the date that the option  
29 agreement was executed is the date on which the transfer or acquisition  
30 of the controlling interest is deemed to occur. For all other purposes  
31 under this chapter, the date upon which the option is exercised is the  
32 date of the transfer or acquisition of the controlling interest.

33 (c) For purposes of this subsection, all acquisitions of persons  
34 acting in concert (~~((shall))~~) must be aggregated for purposes of  
35 determining whether a transfer or acquisition of a controlling interest  
36 has taken place. The department (~~((of revenue shall))~~) must adopt

standards by rule to determine when persons are acting in concert. In adopting a rule for this purpose, the department (~~shall~~) must consider the following:

~~((a))~~ (i) Persons (~~shall~~) must be treated as acting in concert when they have a relationship with each other such that one person influences or controls the actions of another through common ownership; and

~~((b))~~ (ii) When persons are not commonly owned or controlled, they (~~shall~~) must be treated as acting in concert only when the unity with which the purchasers have negotiated and will consummate the transfer of ownership interests supports a finding that they are acting as a single entity. If the acquisitions are completely independent, with each purchaser buying without regard to the identity of the other purchasers, then the acquisitions (~~shall be~~) are considered separate acquisitions.

(3) The term "sale" (~~shall~~) does not include:

(a) A transfer by gift, devise, or inheritance.

(b) A transfer of any leasehold interest other than of the type mentioned above.

(c) A cancellation or forfeiture of a vendee's interest in a contract for the sale of real property, whether or not such contract contains a forfeiture clause, or deed in lieu of foreclosure of a mortgage.

(d) The partition of property by tenants in common by agreement or as the result of a court decree.

(e) The assignment of property or interest in property from one spouse or one domestic partner to the other spouse or other domestic partner in accordance with the terms of a decree of dissolution of marriage or state registered domestic partnership or in fulfillment of a property settlement agreement.

(f) The assignment or other transfer of a vendor's interest in a contract for the sale of real property, even though accompanied by a conveyance of the vendor's interest in the real property involved.

(g) Transfers by appropriation or decree in condemnation proceedings brought by the United States, the state or any political subdivision thereof, or a municipal corporation.

(h) A mortgage or other transfer of an interest in real property merely to secure a debt, or the assignment thereof.

1 (i) Any transfer or conveyance made pursuant to a deed of trust or  
2 an order of sale by the court in any mortgage, deed of trust, or lien  
3 foreclosure proceeding or upon execution of a judgment, or deed in lieu  
4 of foreclosure to satisfy a mortgage or deed of trust.

5 (j) A conveyance to the federal housing administration or veterans  
6 administration by an authorized mortgagee made pursuant to a contract  
7 of insurance or guaranty with the federal housing administration or  
8 veterans administration.

9 (k) A transfer in compliance with the terms of any lease or  
10 contract upon which the tax as imposed by this chapter has been paid or  
11 where the lease or contract was entered into prior to the date this tax  
12 was first imposed.

13 (l) The sale of any grave or lot in an established cemetery.

14 (m) A sale by the United States, this state or any political  
15 subdivision thereof, or a municipal corporation of this state.

16 (n) A sale to a regional transit authority or public corporation  
17 under RCW 81.112.320 under a sale/leaseback agreement under RCW  
18 81.112.300.

19 (o) A transfer of real property, however effected, if it consists  
20 of a mere change in identity or form of ownership of an entity where  
21 there is no change in the beneficial ownership. These include  
22 transfers to a corporation or partnership which is wholly owned by the  
23 transferor and/or the transferor's spouse or domestic partner or  
24 children of the transferor or the transferor's spouse or domestic  
25 partner(~~((+1))~~ ~~PROVIDED, That~~)). However, if thereafter such transferee  
26 corporation or partnership voluntarily transfers such real property, or  
27 such transferor, spouse or domestic partner, or children of the  
28 transferor or the transferor's spouse or domestic partner voluntarily  
29 transfer stock in the transferee corporation or interest in the  
30 transferee partnership capital, as the case may be, to other than  
31 (~~((+1))~~) (i) the transferor and/or the transferor's spouse or domestic  
32 partner or children of the transferor or the transferor's spouse or  
33 domestic partner, (~~((+2))~~) (ii) a trust having the transferor and/or the  
34 transferor's spouse or domestic partner or children of the transferor  
35 or the transferor's spouse or domestic partner as the only  
36 beneficiaries at the time of the transfer to the trust, or (~~((+3))~~)  
37 (iii) a corporation or partnership wholly owned by the original  
38 transferor and/or the transferor's spouse or domestic partner or

1 children of the transferor or the transferor's spouse or domestic  
2 partner, within three years of the original transfer to which this  
3 exemption applies, and the tax on the subsequent transfer has not been  
4 paid within sixty days of becoming due, excise taxes (~~((shall))~~) become  
5 due and payable on the original transfer as otherwise provided by law.

6 (p)(i) A transfer that for federal income tax purposes does not  
7 involve the recognition of gain or loss for entity formation,  
8 liquidation or dissolution, and reorganization, including but not  
9 limited to nonrecognition of gain or loss because of application of  
10 (~~((section))~~) 26 U.S.C. Sec. 332, 337, 351, 368(a)(1), 721, or 731 of the  
11 internal revenue code of 1986, as amended.

12 (ii) However, the transfer described in (p)(i) of this subsection  
13 cannot be preceded or followed within a twelve-month period by another  
14 transfer or series of transfers, that, when combined with the otherwise  
15 exempt transfer or transfers described in (p)(i) of this subsection,  
16 results in the transfer of a controlling interest in the entity for  
17 valuable consideration, and in which one or more persons previously  
18 holding a controlling interest in the entity receive cash or property  
19 in exchange for any interest the person or persons acting in concert  
20 hold in the entity. This subsection (3)(p)(ii) does not apply to that  
21 part of the transfer involving property received that is the real  
22 property interest that the person or persons originally contributed to  
23 the entity or when one or more persons who did not contribute real  
24 property or belong to the entity at a time when real property was  
25 purchased receive cash or personal property in exchange for that person  
26 or persons' interest in the entity. The real estate excise tax under  
27 this subsection (3)(p)(ii) is imposed upon the person or persons who  
28 previously held a controlling interest in the entity.

29 (q) A qualified sale of a manufactured/mobile home community, as  
30 defined in RCW 59.20.030, that takes place on or after June 12, 2008,  
31 but before December 31, 2018.

32 **Sec. 207.** RCW 82.45.033 and 1993 sp.s. c 25 s 505 are each amended  
33 to read as follows:

34 (1) As used in this chapter, the term "controlling interest" has  
35 the following meaning:

36 (~~((1))~~) (a) In the case of a corporation, either fifty percent or

1 more of the total combined voting power of all classes of stock of the  
2 corporation entitled to vote, or fifty percent of the capital, profits,  
3 or beneficial interest in the voting stock of the corporation; and

4 ~~((+2))~~ (b) In the case of a partnership, association, trust, or  
5 other entity, fifty percent or more of the capital, profits, or  
6 beneficial interest in such partnership, association, trust, or other  
7 entity.

8 (2) The department may, at the department's option, enforce the  
9 obligation of the seller under this chapter as provided in this  
10 subsection (2):

11 (a) In the transfer or acquisition of a controlling interest as  
12 defined in subsection (1)(a) of this section, either against the  
13 corporation in which a controlling interest is transferred or acquired,  
14 against the person or persons who acquired the controlling interest in  
15 the corporation or, when the corporation is not a publicly traded  
16 company, against the person or persons who transferred the controlling  
17 interest in the corporation; and

18 (b) In the transfer or acquisition of a controlling interest as  
19 defined in subsection (1)(b) of this section, either against the entity  
20 in which a controlling interest is transferred or acquired or against  
21 the person or persons who transferred or acquired the controlling  
22 interest in the entity.

23 **Sec. 208.** RCW 82.45.070 and 1969 ex.s. c 223 s 28A.45.070 are each  
24 amended to read as follows:

25 The tax ~~((herein))~~ provided for in this chapter and any interest or  
26 penalties thereon ~~((shall be))~~ is a specific lien upon each ~~((piece))~~  
27 parcel of real property located in this state that is either sold or  
28 that is owned by an entity in which a controlling interest has been  
29 transferred or acquired. The lien attaches from the time of sale until  
30 the tax ~~((shall have been))~~ is paid, which lien may be enforced in the  
31 manner prescribed for the foreclosure of mortgages.

32 **Sec. 209.** RCW 82.45.080 and 1980 c 154 s 3 are each amended to  
33 read as follows:

34 (1) The tax levied under this chapter ~~((shall be))~~ is the  
35 obligation of the seller and the department ~~((of revenue))~~ may, at the  
36 department's option, enforce the obligation through an action of debt

1 against the seller or the department may proceed in the manner  
2 prescribed for the foreclosure of mortgages (~~((and-resort-to))~~). The  
3 department's use of one course of enforcement (~~((shall))~~ is not (~~((be))~~  
4 an election not to pursue the other.

5 (2) For purposes of this section and notwithstanding any other  
6 provisions of law, the seller is the parent corporation of a wholly  
7 owned subsidiary, when such subsidiary is the transferor to a third-  
8 party transferee and the subsidiary is dissolved before paying the tax  
9 imposed under this chapter.

10 **Sec. 210.** RCW 82.45.100 and 2007 c 111 s 112 are each amended to  
11 read as follows:

12 (1) Payment of the tax imposed under this chapter is due and  
13 payable immediately at the time of sale, and if not paid within one  
14 month thereafter (~~((shall))~~ will bear interest from the time of sale  
15 until the date of payment.

16 (a) Interest imposed before January 1, 1999, (~~((shall-be))~~ is  
17 computed at the rate of one percent per month.

18 (b) Interest imposed after December 31, 1998, (~~((shall-be))~~ is  
19 computed on a monthly basis at the rate as computed under RCW  
20 82.32.050(2). The rate so computed (~~((shall))~~ must be adjusted on the  
21 first day of January of each year for use in computing interest for  
22 that calendar year. The department (~~((of-revenue-shall))~~ must provide  
23 written notification to the county treasurers of the variable rate on  
24 or before December 1st of the year preceding the calendar year in which  
25 the rate applies.

26 (2) In addition to the interest described in subsection (1) of this  
27 section, if the payment of any tax is not received by the county  
28 treasurer or the department of revenue, as the case may be, within one  
29 month of the date due, there (~~((shall-be))~~ is assessed a penalty of five  
30 percent of the amount of the tax; if the tax is not received within two  
31 months of the date due, there (~~((shall))~~ will be assessed a total  
32 penalty of ten percent of the amount of the tax; and if the tax is not  
33 received within three months of the date due, there (~~((shall))~~ will be  
34 assessed a total penalty of twenty percent of the amount of the tax.  
35 The payment of the penalty described in this subsection (~~((shall-be))~~ is  
36 collectible from the seller only, and RCW 82.45.070 does not apply to  
37 the penalties described in this subsection.



1 (3) If the tax imposed under this chapter is not received by the  
2 due date, the transferee (~~((shall be))~~) is personally liable for the tax,  
3 along with any interest as provided in subsection (1) of this section,  
4 unless(~~((~~

5 ~~(a))~~) an instrument evidencing the sale is recorded in the official  
6 real property records of the county in which the property conveyed is  
7 located(~~((; or~~

8 ~~(b) Either the transferor or transferee notifies the department of~~  
9 ~~revenue in writing of the occurrence of the sale within thirty days~~  
10 ~~following the date of the sale))~~).

11 (4) If upon examination of any affidavits or from other information  
12 obtained by the department or its agents it appears that all or a  
13 portion of the tax is unpaid, the department (~~((shall))~~) must assess  
14 against the taxpayer the additional amount found to be due plus  
15 interest and penalties as provided in subsections (1) and (2) of this  
16 section. The department (~~((shall))~~) must notify the taxpayer by mail, or  
17 electronically as provided in RCW 82.32.135, of the additional amount  
18 and the same (~~((shall))~~) becomes due and (~~((shall))~~) must be paid within  
19 thirty days from the date of the notice, or within such further time as  
20 the department may provide.

21 (5) No assessment or refund may be made by the department more than  
22 four years after the date of sale except upon a showing of:

23 (a) Fraud or misrepresentation of a material fact by the taxpayer;

24 (b) A failure by the taxpayer to record documentation of a sale or  
25 otherwise report the sale to the county treasurer; or

26 (c) A failure of the transferor or transferee to report the sale  
27 under RCW 82.45.090(2).

28 (6) Penalties collected on taxes due under this chapter under  
29 subsection (2) of this section and RCW 82.32.090 (2) through (7)  
30 (~~((shall))~~) must be deposited in the housing trust fund as described in  
31 chapter 43.185 RCW.

32 **Sec. 211.** RCW 82.45.220 and 2005 c 326 s 3 are each amended to  
33 read as follows:

34 (1) An organization that fails to report a transfer of the  
35 controlling interest in the organization under RCW 43.07.390 to the  
36 secretary of state and is later determined to be subject to real estate

excise taxes due to the transfer, (~~shall be~~) is subject to the provisions of RCW 82.45.100 as well as the evasion penalty in RCW 82.32.090(~~(+6+)~~) (7).

(2) Subsection (1) of this section also applies to the failure to report to the secretary of state the granting of an option to acquire an interest in the organization if the exercise of the option would result in a sale as defined in RCW 82.45.010(2).

**Sec. 212.** RCW 43.07.390 and 2005 c 326 s 2 are each amended to read as follows:

(1)(a) The secretary of state (~~shall~~) must adopt rules requiring any entity that is required to file an annual report with the secretary of state, including entities under Titles 23, 23B, 24, and 25 RCW, to disclose: (i) Any transfer (~~(in)~~) of the controlling interest (~~(of)~~) in the entity (~~(and any interest in real property)~~); and (ii) the granting of any option to acquire an interest in the entity if the exercise of the option would result in a sale as defined in RCW 82.45.010(2).

(b) The disclosure requirement in this subsection only applies to entities owning an interest in real property located in this state.

(2) This information (~~shall~~) must be made available to the department of revenue upon request for the purposes of tracking the transfer of the controlling interest in entities owning real property and to determine when the real estate excise tax is applicable in such cases.

(3) For the purposes of this section, "controlling interest" has the same meaning as provided in RCW 82.45.033.

### PART III

#### Modifying and Placing a Cap on the First Mortgage Deduction

NEW SECTION. **Sec. 301.** In 1980, the legislature adopted a business and occupation tax deduction to financial businesses for amounts derived from interest received on investments or loans primarily secured by first mortgages or trust deeds on nontransient residential properties which was codified in RCW 82.04.4292. However, the Washington state supreme court in *Homestreet, Inc. v. Dep't of Revenue*, 166 Wn.2d 444 (2009) held that a mortgage lender was entitled

1 to a business and occupation tax deduction under RCW 82.04.4292 for the  
2 portion of interest it retained for servicing loans and mortgage-backed  
3 securities that it sold on a service-retained basis on the secondary  
4 market. The legislature finds that inclusion of interest retained for  
5 servicing loans and mortgage-backed securities was not within the  
6 legislative intent when the deduction provided in 82.04.4292 was  
7 adopted in 1980. Therefore, by this act, the legislature declares that  
8 the deduction provided by RCW 82.04.4292 does not apply to fees that  
9 are received in exchange for services, regardless of whether the source  
10 of the fees is or may have been interest when paid by a borrower.

11 **Sec. 302.** RCW 82.04.4292 and 1980 c 37 s 12 are each amended to  
12 read as follows:

13 (1) In computing tax there may be deducted from the measure of tax  
14 by those engaged in banking, loan, security or other financial  
15 businesses, amounts derived from interest received on investments or  
16 loans primarily secured by first mortgages or trust deeds on  
17 nontransient residential properties.

18 (2) Interest deductible under this section includes the portion of  
19 fees charged to borrowers, including points and loan origination fees,  
20 that is recognized over the life of the loan as an adjustment to yield  
21 in the taxpayer's books and records according to generally accepted  
22 accounting principles.

23 (3) Subsections (1) and (2) of this section notwithstanding, the  
24 following is a nonexclusive list of items that are not deductible under  
25 this section:

26 (a) Fees for specific services such as: Document preparation fees;  
27 finder fees; brokerage fees; title examination fees; fees for credit  
28 checks; notary fees; loan application fees; interest lock-in fees if  
29 the loan is not made; servicing fees, including servicing fees received  
30 by lenders when they sell loans or mortgage-backed or mortgage-related  
31 securities in the secondary market while retaining the right to service  
32 the loans or securities and receive a portion of the interest payments  
33 as the servicing fee; and similar fees or amounts;

34 (b) Fees received in consideration for an agreement to make funds  
35 available for a specific period of time at specified terms, commonly  
36 referred to as commitment fees;

(c) Any other fees, or portion of a fee, that is not recognized over the life of the loan as an adjustment to yield in the taxpayer's books and records according to generally accepted accounting principles; and

(d) Gains on the sale of valuable rights such as:

(i) Service release premiums, which are amounts received when servicing rights are sold; and

(ii) Gains on the sale of loans.

(4) The total amount a person may deduct under this section for any calendar year may not exceed one hundred million dollars.

## PART IV

## Repealing the Nonresident Sales Tax Exemption

NEW SECTION. **Sec. 401.** RCW 82.08.0273 (Exemptions--Sales to nonresidents of tangible personal property, digital goods, and digital codes for use outside the state--Proof of nonresident status--Penalties) and 2009 c 535 s 512, 2007 c 135 s 2, 2003 c 53 s 399, 1993 c 444 s 1, 1988 c 96 s 1, 1982 1st ex.s. c 5 s 1, & 1980 c 37 s 39 are each repealed.

## PART V

## Direct Seller Business and Occupation Tax Exemption

NEW SECTION. **Sec. 501.** (1) A business and occupation tax exemption is provided in RCW 82.04.423 for certain out-of-state sellers that sell consumer products exclusively to or through a direct seller's representative. The intent of the legislature in enacting this exemption was to provide a narrow exemption for out-of-state businesses engaged in direct sales of consumer products, typically accomplished through in-home parties or door-to-door selling.

(2) In *Dot Foods, Inc. v. Dep't of Revenue*, Docket No. 81022-2 (September 10, 2009), the Washington supreme court held that the exemption in RCW 82.04.423 applied to a taxpayer: (a) That sold nonconsumer products through its representative in addition to consumer products; and (b) whose consumer products were ultimately sold at retail in permanent retail establishments.

(3) The legislature finds that most out-of-state businesses selling consumer products in this state will either be eligible for the exemption under RCW 82.04.423 or could easily restructure their business operations to qualify for the exemption. As a result, the legislature expects that the broadened interpretation of the direct sellers' exemption will lead to large and devastating revenue losses. This comes at a time when the state's existing budget is facing a two billion six hundred million dollar shortfall, which could grow, while at the same time the demand for state and state-funded services is also growing. Moreover, the legislature further finds that RCW 82.04.423 provides preferential tax treatment for out-of-state businesses over their in-state competitors and now creates a strong incentive for in-state businesses to move their operations outside Washington.

(4) Therefore, the legislature finds that it is necessary to reaffirm the legislature's intent in establishing the direct sellers' exemption and prevent the loss of revenues resulting from the expanded interpretation of the exemption by amending RCW 82.04.423 retroactively to conform the exemption to the original intent of the legislature and by prospectively ending the direct sellers' exemption as of the effective date of this section.

**Sec. 502.** RCW 82.04.423 and 1983 1st ex.s. c 66 s 5 are each amended to read as follows:

(1) Prior to April 1, 2010, this chapter ((shall)) does not apply to any person in respect to gross income derived from the business of making sales at wholesale or retail if such person:

- (a) Does not own or lease real property within this state; and
- (b) Does not regularly maintain a stock of tangible personal property in this state for sale in the ordinary course of business; and
- (c) Is not a corporation incorporated under the laws of this state; and
- (d) Makes sales in this state exclusively to or through a direct seller's representative.

(2) For purposes of this section, the term "direct seller's representative" means a person who buys only consumer products on a buy-sell basis or a deposit-commission basis for resale, by the buyer or any other person, in the home or otherwise than in a permanent

1 retail establishment, or who sells at retail, or solicits the sale at  
2 retail of, only consumer products in the home or otherwise than in a  
3 permanent retail establishment; and

4 (a) Substantially all of the remuneration paid to such person,  
5 whether or not paid in cash, for the performance of services described  
6 in this subsection is directly related to sales or other output,  
7 including the performance of services, rather than the number of hours  
8 worked; and

9 (b) The services performed by the person are performed pursuant to  
10 a written contract between such person and the person for whom the  
11 services are performed and such contract provides that the person will  
12 not be treated as an employee with respect to such purposes for federal  
13 tax purposes.

14 (3) Nothing in this section (~~((shall))~~) may be construed to imply  
15 that a person exempt from tax under this section was engaged in a  
16 business activity taxable under this chapter prior to (~~((the enactment~~  
17 ~~of this section))~~) August 23, 1983.

## 18 PART VI

### 19 Business and Occupation Tax Preferences for Manufacturers of Products 20 Derived from Certain Agricultural Products

21 NEW SECTION. Sec. 601. (1)(a) In 1967, the legislature amended  
22 RCW 82.04.260 in chapter 149, Laws of 1967 ex. sess. to authorize a  
23 preferential business and occupation tax rate for slaughtering,  
24 breaking, and/or processing perishable meat products and/or selling the  
25 same at wholesale. The legislature finds that RCW 82.04.260(4) was  
26 interpreted by the state supreme court on January 13, 2005, in *Agrilink*  
27 *Foods, Inc. v. Department of Revenue*, 153 Wn.2d 392 (2005). The  
28 supreme court held that the preferential business and occupation tax  
29 rate on the slaughtering, breaking, and/or processing of perishable  
30 meat products applied to the processing of perishable meat products  
31 into nonperishable finished products, such as canned food.

32 (b) The legislature intends to narrow the exemption provided for  
33 slaughtering, breaking, and/or processing perishable meat products  
34 and/or selling such products at wholesale by requiring that the end  
35 product be a perishable meat product; a nonperishable meat product that

1 is comprised primarily of animal carcass by weight or volume, other  
2 than a canned meat product; or a meat by-product.

3 (2)(a) A business and occupation tax exemption is provided for (i)  
4 manufacturing by canning, preserving, freezing, processing, or  
5 dehydrating fresh fruits or vegetables, and (ii) selling such products  
6 at wholesale by the manufacturer to purchasers who transport the goods  
7 out of state in the ordinary course of business. This exemption  
8 expires July 1, 2012, and is replaced by a preferential business and  
9 occupation tax rate.

10 (b) The legislature finds that the rationale of the *Agrilink*  
11 decision, if applied to these tax preferences, could result in  
12 preferential tax treatment for any processed food product that  
13 contained any fresh fruit or vegetable as an ingredient, however small  
14 the amount.

15 (c) The legislature intends to narrow the tax preference provided  
16 to fruit and vegetable manufacturers by requiring that the end product  
17 be comprised either (i) exclusively of fruits and/or vegetables, or  
18 (ii) of any combination of fruits, vegetables, and certain other  
19 substances that, cumulatively, may not exceed the amount of fruits and  
20 vegetables contained in the product measured by weight or volume.

21 NEW SECTION. Sec. 602. A new section is added to chapter 82.04  
22 RCW to read as follows:

23 (1) Upon every person engaging within this state in the business of  
24 manufacturing:

25 (a) Perishable meat products, by slaughtering, breaking, or  
26 processing, if the finished product is a perishable meat product; as to  
27 such persons the tax imposed is equal to the value of the perishable  
28 meat products manufactured, or, in the case of a processor for hire,  
29 the gross income of the business, multiplied by the rate of 0.138  
30 percent;

31 (b) Meat products, by dehydration, curing, smoking, or any  
32 combination of these activities, if the finished meat products are not  
33 canned; as to such persons the tax imposed is equal to the value of the  
34 meat products manufactured, or, in the case of a processor for hire,  
35 the gross income of the business, multiplied by the rate of 0.138  
36 percent;

1 (c) Hides, tallow, meat meal, and other similar meat by-products,  
2 if such products are derived in part from animals and manufactured in  
3 a rendering plant licensed under chapter 16.68 RCW; as to such persons  
4 the tax imposed is equal to the value of the products manufactured, or,  
5 in the case of a processor for hire, the gross income of the business,  
6 multiplied by the rate of 0.138 percent.

7 (2) Upon every person engaging within this state in the business of  
8 selling at wholesale:

9 (a) Perishable meat products; as to such persons the tax imposed is  
10 equal to the gross proceeds derived from such sales multiplied by the  
11 rate of 0.138 percent;

12 (b) Meat products that have been manufactured by the seller by  
13 dehydration, curing, smoking, or any combination of such activities, if  
14 the finished meat products are not canned; as to such persons the tax  
15 imposed is equal to the gross proceeds derived from such sales  
16 multiplied by the rate of 0.138 percent;

17 (c) Hides, tallow, meat meal, and other similar meat by-products,  
18 if such products are derived in part from animals and manufactured by  
19 the seller in a rendering plant; as to such persons the tax imposed is  
20 equal to the gross proceeds derived from such sales multiplied by the  
21 rate of 0.138 percent.

22 (3) The definitions in this subsection apply throughout this  
23 section unless the context clearly requires otherwise.

24 (a) "Animal" means all members of the animal kingdom except humans,  
25 fish, and insects.

26 (b) "Carcass" means all or any parts, including viscera, of a  
27 slaughtered animal.

28 (c) "Fish" means any water-breathing animal, including shellfish.

29 (d) "Hide" means any unprocessed animal pelt or skin.

30 (e)(i) "Meat products" means:

31 (A) Products comprised exclusively of animal carcass; and

32 (B) Products, such as jerky, sausage, and other cured meat  
33 products, that are comprised primarily of animal carcass by weight or  
34 volume and may also contain water; nitrates; nitrites; acids; binders  
35 and extenders; natural or synthetic casings; colorings; flavorings such  
36 as soy sauce, liquid smoke, seasonings, citric acid, sugar, molasses,  
37 corn syrup, and vinegar; and similar substances.



(ii) Except as provided in (e)(i) of this subsection (3), "meat products" does not include products containing any cereal grains or cereal-grain products, dairy products, legumes and legume products, fruit or vegetable products as defined in RCW 82.04.260, and similar ingredients, unless the ingredient is used as a flavoring. For purposes of this subsection, "flavoring" means a substance that contains the flavoring constituents derived from a spice, fruit or fruit juice, vegetable or vegetable juice, edible yeast, herb, bark, bud, root, leaf, or any other edible substance of plant origin, whose primary function in food is flavoring or seasoning rather than nutritional, and which may legally appear as "natural flavor," "flavor," or "flavorings" in the ingredient statement on the label of the meat product.

(iii) "Meat products" includes only products that are intended for human consumption as food or animal consumption as feed.

(f) "Perishable" means having a high risk of spoilage within thirty days of manufacture without any refrigeration or freezing.

(g) "Rendering plant" means any place of business or location where dead animals or any part or portion thereof, or packing house refuse, are processed for the purpose of obtaining the hide, skin, grease residue, or any other by-product whatsoever.

**Sec. 603.** RCW 82.04.4266 and 2006 c 354 s 3 are each amended to read as follows:

(1) This chapter (~~((shall))~~) does not apply to the value of products or the gross proceeds of sales derived from:

(a) Manufacturing fruit(~~((s))~~) or vegetable(~~((s))~~) products by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables; or

(b) Selling at wholesale fruit(~~((s))~~) or vegetable(~~((s))~~) products manufactured by the seller by canning, preserving, freezing, processing, or dehydrating fresh fruits or vegetables and sold to purchasers who transport in the ordinary course of business the goods out of this state. A person taking an exemption under this subsection (1)(b) must keep and preserve records for the period required by RCW 82.32.070 establishing that the goods were transported by the purchaser in the ordinary course of business out of this state.

(2)(a) "Fruit or vegetable products" means:

1       (i) Products comprised exclusively of fruits, vegetables, or both;  
2   and

3       (ii) Products comprised of fruits, vegetables, or both, and which  
4   may also contain water, sugar, salt, seasonings, preservatives,  
5   binders, stabilizers, flavorings, yeast, and similar substances.  
6   However, the amount of all ingredients contained in the product, other  
7   than fruits, vegetables, and water, may not exceed the amount of fruits  
8   and vegetables contained in the product measured by weight or volume.

9       (b) "Fruit or vegetable products" includes only products that are  
10   intended for human consumption as food or animal consumption as feed.

11       (3) This section expires July 1, 2012.

12       **Sec. 604.** RCW 82.04.260 and 2009 c 479 s 64, 2009 c 461 s 1, and  
13   2009 c 162 s 34 are each reenacted and amended to read as follows:

14       (1) Upon every person engaging within this state in the business of  
15   manufacturing:

16       (a) Wheat into flour, barley into pearl barley, soybeans into  
17   soybean oil, canola into canola oil, canola meal, or canola by-  
18   products, or sunflower seeds into sunflower oil; as to such persons the  
19   amount of tax with respect to such business (~~((shall be))~~) is equal to  
20   the value of the flour, pearl barley, oil, canola meal, or canola by-  
21   product manufactured, multiplied by the rate of 0.138 percent;

22       (b) Beginning July 1, 2012, seafood products that remain in a raw,  
23   raw frozen, or raw salted state at the completion of the manufacturing  
24   by that person; or selling manufactured seafood products that remain in  
25   a raw, raw frozen, or raw salted state at the completion of the  
26   manufacturing, to purchasers who transport in the ordinary course of  
27   business the goods out of this state; as to such persons the amount of  
28   tax with respect to such business (~~((shall be))~~) is equal to the value of  
29   the products manufactured or the gross proceeds derived from such  
30   sales, multiplied by the rate of 0.138 percent. Sellers must keep and  
31   preserve records for the period required by RCW 82.32.070 establishing  
32   that the goods were transported by the purchaser in the ordinary course  
33   of business out of this state;

34       (c) Beginning July 1, 2012, dairy products that as of September 20,  
35   2001, are identified in 21 C.F.R., chapter 1, parts 131, 133, and 135,  
36   including by-products from the manufacturing of the dairy products such  
37   as whey and casein; or selling the same to purchasers who transport in

1 the ordinary course of business the goods out of state; as to such  
2 persons the tax imposed (~~((shall-be))~~) is equal to the value of the  
3 products manufactured or the gross proceeds derived from such sales  
4 multiplied by the rate of 0.138 percent. Sellers must keep and  
5 preserve records for the period required by RCW 82.32.070 establishing  
6 that the goods were transported by the purchaser in the ordinary course  
7 of business out of this state;

8 (d)(i) Beginning July 1, 2012, fruit(~~((s))~~) or vegetable(~~((s))~~)  
9 products by canning, preserving, freezing, processing, or dehydrating  
10 fresh fruits or vegetables, or selling at wholesale fruit(~~((s))~~) or  
11 vegetable(~~((s))~~) products manufactured by the seller by canning,  
12 preserving, freezing, processing, or dehydrating fresh fruits or  
13 vegetables and sold to purchasers who transport in the ordinary course  
14 of business the goods out of this state; as to such persons the amount  
15 of tax with respect to such business (~~((shall-be))~~) is equal to the value  
16 of the products manufactured or the gross proceeds derived from such  
17 sales multiplied by the rate of 0.138 percent. Sellers must keep and  
18 preserve records for the period required by RCW 82.32.070 establishing  
19 that the goods were transported by the purchaser in the ordinary course  
20 of business out of this state;

21 (ii) For purposes of this subsection, "fruit or vegetable products"  
22 means:

23 (A) Products comprised exclusively of fruits, vegetables, or both;  
24 or

25 (B) Products comprised of fruits, vegetables, or both, and which  
26 may also contain water, sugar, salt, seasonings, preservatives,  
27 binders, stabilizers, flavorings, yeast, and similar substances.  
28 However, the amount of all ingredients contained in the product, other  
29 than fruits, vegetables, and water, may not exceed the amount of fruits  
30 and vegetables contained in the product measured by weight or volume;

31 (iii) "Fruit and vegetable products" includes only products that  
32 are intended for human consumption as food or animal consumption as  
33 feed;

34 (e) Until July 1, 2009, alcohol fuel, biodiesel fuel, or biodiesel  
35 feedstock, as those terms are defined in RCW 82.29A.135; as to such  
36 persons the amount of tax with respect to the business (~~((shall-be))~~) is  
37 equal to the value of alcohol fuel, biodiesel fuel, or biodiesel  
38 feedstock manufactured, multiplied by the rate of 0.138 percent; and

1 (f) Alcohol fuel or wood biomass fuel, as those terms are defined  
2 in RCW 82.29A.135; as to such persons the amount of tax with respect to  
3 the business (~~((shall-be))~~) is equal to the value of alcohol fuel or wood  
4 biomass fuel manufactured, multiplied by the rate of 0.138 percent.

5 (2) Upon every person engaging within this state in the business of  
6 splitting or processing dried peas; as to such persons the amount of  
7 tax with respect to such business (~~((shall-be))~~) is equal to the value of  
8 the peas split or processed, multiplied by the rate of 0.138 percent.

9 (3) Upon every nonprofit corporation and nonprofit association  
10 engaging within this state in research and development, as to such  
11 corporations and associations, the amount of tax with respect to such  
12 activities (~~((shall-be))~~) is equal to the gross income derived from such  
13 activities multiplied by the rate of 0.484 percent.

14 (~~((4) ((Upon every person engaging within this state in the business  
15 of slaughtering, breaking and/or processing perishable meat products  
16 and/or selling the same at wholesale only and not at retail; as to such  
17 persons the tax imposed shall be equal to the gross proceeds derived  
18 from such sales multiplied by the rate of 0.138 percent.~~

19 ~~((5))~~) Upon every person engaging within this state in the business  
20 of acting as a travel agent or tour operator; as to such persons the  
21 amount of the tax with respect to such activities (~~((shall-be))~~) is equal  
22 to the gross income derived from such activities multiplied by the rate  
23 of 0.275 percent.

24 (~~((6))~~) (5) Upon every person engaging within this state in  
25 business as an international steamship agent, international customs  
26 house broker, international freight forwarder, vessel and/or cargo  
27 charter broker in foreign commerce, and/or international air cargo  
28 agent; as to such persons the amount of the tax with respect to only  
29 international activities (~~((shall-be))~~) is equal to the gross income  
30 derived from such activities multiplied by the rate of 0.275 percent.

31 (~~((7))~~) (6) Upon every person engaging within this state in the  
32 business of stevedoring and associated activities pertinent to the  
33 movement of goods and commodities in waterborne interstate or foreign  
34 commerce; as to such persons the amount of tax with respect to such  
35 business (~~((shall-be))~~) is equal to the gross proceeds derived from such  
36 activities multiplied by the rate of 0.275 percent. Persons subject to  
37 taxation under this subsection (~~((shall-be))~~) are exempt from payment of  
38 taxes imposed by chapter 82.16 RCW for that portion of their business

1 subject to taxation under this subsection. Stevedoring and associated  
2 activities pertinent to the conduct of goods and commodities in  
3 waterborne interstate or foreign commerce are defined as all activities  
4 of a labor, service or transportation nature whereby cargo may be  
5 loaded or unloaded to or from vessels or barges, passing over, onto or  
6 under a wharf, pier, or similar structure; cargo may be moved to a  
7 warehouse or similar holding or storage yard or area to await further  
8 movement in import or export or may move to a consolidation freight  
9 station and be stuffed, unstuffed, containerized, separated or  
10 otherwise segregated or aggregated for delivery or loaded on any mode  
11 of transportation for delivery to its consignee. Specific activities  
12 included in this definition are: Wharfage, handling, loading,  
13 unloading, moving of cargo to a convenient place of delivery to the  
14 consignee or a convenient place for further movement to export mode;  
15 documentation services in connection with the receipt, delivery,  
16 checking, care, custody and control of cargo required in the transfer  
17 of cargo; imported automobile handling prior to delivery to consignee;  
18 terminal stevedoring and incidental vessel services, including but not  
19 limited to plugging and unplugging refrigerator service to containers,  
20 trailers, and other refrigerated cargo receptacles, and securing ship  
21 hatch covers.

22 ~~((+8+))~~ (7)(a) Upon every person engaging within this state in the  
23 business of disposing of low-level waste, as defined in RCW 43.145.010;  
24 as to such persons the amount of the tax with respect to such business  
25 ~~((shall be))~~ is equal to the gross income of the business, excluding  
26 any fees imposed under chapter 43.200 RCW, multiplied by the rate of  
27 3.3 percent.

28 (b) If the gross income of the taxpayer is attributable to  
29 activities both within and without this state, the gross income  
30 attributable to this state ~~((shall))~~ must be determined in accordance  
31 with the methods of apportionment required under RCW 82.04.460.

32 ~~((+9+))~~ (8) Upon every person engaging within this state as an  
33 insurance producer or title insurance agent licensed under chapter  
34 48.17 RCW or a surplus line broker licensed under chapter 48.15 RCW; as  
35 to such persons, the amount of the tax with respect to such licensed  
36 activities ~~((shall be))~~ is equal to the gross income of such business  
37 multiplied by the rate of 0.484 percent.

1       (~~((10))~~) (9) Upon every person engaging within this state in  
2 business as a hospital, as defined in chapter 70.41 RCW, that is  
3 operated as a nonprofit corporation or by the state or any of its  
4 political subdivisions, as to such persons, the amount of tax with  
5 respect to such activities (~~((shall-be))~~) is equal to the gross income of  
6 the business multiplied by the rate of 0.75 percent through June 30,  
7 1995, and 1.5 percent thereafter.

8       (~~((11))~~) (10)(a) Beginning October 1, 2005, upon every person  
9 engaging within this state in the business of manufacturing commercial  
10 airplanes, or components of such airplanes, or making sales, at retail  
11 or wholesale, of commercial airplanes or components of such airplanes,  
12 manufactured by the seller, as to such persons the amount of tax with  
13 respect to such business (~~((shall))~~), in the case of manufacturers,  
14 (~~((be))~~) is equal to the value of the product manufactured and the gross  
15 proceeds of sales of the product manufactured, or in the case of  
16 processors for hire, (~~((be))~~) is equal to the gross income of the  
17 business, multiplied by the rate of:

18       (i) 0.4235 percent from October 1, 2005, through (~~((the-later-of))~~)  
19 June 30, 2007; and

20       (ii) 0.2904 percent beginning July 1, 2007.

21       (b) Beginning July 1, 2008, upon every person who is not eligible  
22 to report under the provisions of (a) of this subsection (~~((11))~~) (10)  
23 and is engaging within this state in the business of manufacturing  
24 tooling specifically designed for use in manufacturing commercial  
25 airplanes or components of such airplanes, or making sales, at retail  
26 or wholesale, of such tooling manufactured by the seller, as to such  
27 persons the amount of tax with respect to such business (~~((shall))~~), in  
28 the case of manufacturers, (~~((be))~~) is equal to the value of the product  
29 manufactured and the gross proceeds of sales of the product  
30 manufactured, or in the case of processors for hire, (~~((be))~~) is equal to  
31 the gross income of the business, multiplied by the rate of 0.2904  
32 percent.

33       (c) For the purposes of this subsection (~~((11))~~) (10), "commercial  
34 airplane" and "component" have the same meanings as provided in RCW  
35 82.32.550.

36       (d) In addition to all other requirements under this title, a  
37 person eligible for the tax rate under this subsection (~~((11))~~) (10)  
38 must report as required under RCW 82.32.545.

1 (e) This subsection (~~((+12+))~~) (10) does not apply on and after July  
2 1, 2024.

3 (~~((+12+))~~) (11)(a) Until July 1, 2024, upon every person engaging  
4 within this state in the business of extracting timber or extracting  
5 for hire timber; as to such persons the amount of tax with respect to  
6 the business (~~((shall))~~), in the case of extractors, (~~((be))~~) is equal to  
7 the value of products, including by-products, extracted, or in the case  
8 of extractors for hire, (~~((be))~~) is equal to the gross income of the  
9 business, multiplied by the rate of 0.4235 percent from July 1, 2006,  
10 through June 30, 2007, and 0.2904 percent from July 1, 2007, through  
11 June 30, 2024.

12 (b) Until July 1, 2024, upon every person engaging within this  
13 state in the business of manufacturing or processing for hire: (i)  
14 Timber into timber products or wood products; or (ii) timber products  
15 into other timber products or wood products; as to such persons the  
16 amount of the tax with respect to the business (~~((shall))~~), in the case  
17 of manufacturers, (~~((be))~~) is equal to the value of products, including  
18 by-products, manufactured, or in the case of processors for hire,  
19 (~~((be))~~) is equal to the gross income of the business, multiplied by the  
20 rate of 0.4235 percent from July 1, 2006, through June 30, 2007, and  
21 0.2904 percent from July 1, 2007, through June 30, 2024.

22 (c) Until July 1, 2024, upon every person engaging within this  
23 state in the business of selling at wholesale: (i) Timber extracted by  
24 that person; (ii) timber products manufactured by that person from  
25 timber or other timber products; or (iii) wood products manufactured by  
26 that person from timber or timber products; as to such persons the  
27 amount of the tax with respect to the business (~~((shall-be))~~) is equal to  
28 the gross proceeds of sales of the timber, timber products, or wood  
29 products multiplied by the rate of 0.4235 percent from July 1, 2006,  
30 through June 30, 2007, and 0.2904 percent from July 1, 2007, through  
31 June 30, 2024.

32 (d) Until July 1, 2024, upon every person engaging within this  
33 state in the business of selling standing timber; as to such persons  
34 the amount of the tax with respect to the business (~~((shall-be))~~) is  
35 equal to the gross income of the business multiplied by the rate of  
36 0.2904 percent. For purposes of this subsection (~~((+12+))~~) (11)(d),  
37 "selling standing timber" means the sale of timber apart from the land,  
38 where the buyer is required to sever the timber within thirty months

1 from the date of the original contract, regardless of the method of  
2 payment for the timber and whether title to the timber transfers  
3 before, upon, or after severance.

4 (e) For purposes of this subsection, the following definitions  
5 apply:

6 (i) "Biocomposite surface products" means surface material products  
7 containing, by weight or volume, more than fifty percent recycled paper  
8 and that also use nonpetroleum-based phenolic resin as a bonding agent.

9 (ii) "Paper and paper products" means products made of interwoven  
10 cellulosic fibers held together largely by hydrogen bonding. "Paper  
11 and paper products" includes newsprint; office, printing, fine, and  
12 pressure-sensitive papers; paper napkins, towels, and toilet tissue;  
13 kraft bag, construction, and other kraft industrial papers; paperboard,  
14 liquid packaging containers, containerboard, corrugated, and solid-  
15 fiber containers including linerboard and corrugated medium; and  
16 related types of cellulosic products containing primarily, by weight or  
17 volume, cellulosic materials. "Paper and paper products" does not  
18 include books, newspapers, magazines, periodicals, and other printed  
19 publications, advertising materials, calendars, and similar types of  
20 printed materials.

21 (iii) "Recycled paper" means paper and paper products having fifty  
22 percent or more of their fiber content that comes from postconsumer  
23 waste. For purposes of this subsection (~~((+12+))~~) (11)(e)(iii),  
24 "postconsumer waste" means a finished material that would normally be  
25 disposed of as solid waste, having completed its life cycle as a  
26 consumer item.

27 (iv) "Timber" means forest trees, standing or down, on privately or  
28 publicly owned land. "Timber" does not include Christmas trees that  
29 are cultivated by agricultural methods or short-rotation hardwoods as  
30 defined in RCW 84.33.035.

31 (v) "Timber products" means:

32 (A) Logs, wood chips, sawdust, wood waste, and similar products  
33 obtained wholly from the processing of timber, short-rotation hardwoods  
34 as defined in RCW 84.33.035, or both;

35 (B) Pulp, including market pulp and pulp derived from recovered  
36 paper or paper products; and

37 (C) Recycled paper, but only when used in the manufacture of  
38 biocomposite surface products.



(vi) "Wood products" means paper and paper products; dimensional lumber; engineered wood products such as particleboard, oriented strand board, medium density fiberboard, and plywood; wood doors; wood windows; and biocomposite surface products.

~~((+13+))~~ (12) Upon every person engaging within this state in inspecting, testing, labeling, and storing canned salmon owned by another person, as to such persons, the amount of tax with respect to such activities ~~((shall-be))~~ is equal to the gross income derived from such activities multiplied by the rate of 0.484 percent.

~~((+14+))~~ (13) Upon every person engaging within this state in the business of printing a newspaper, publishing a newspaper, or both, the amount of tax on such business is equal to the gross income of the business multiplied by the rate of 0.2904 percent.

**Sec. 605.** RCW 82.04.250 and 2008 c 81 s 5 are each amended to read as follows:

(1) Upon every person engaging within this state in the business of making sales at retail, except persons taxable as retailers under other provisions of this chapter, as to such persons, the amount of tax with respect to such business ~~((shall-be))~~ is equal to the gross proceeds of sales of the business, multiplied by the rate of 0.471 percent.

(2) Upon every person engaging within this state in the business of making sales at retail that are exempt from the tax imposed under chapter 82.08 RCW by reason of RCW 82.08.0261, 82.08.0262, or 82.08.0263, except persons taxable under RCW 82.04.260~~((+11+))~~ (10) or subsection (3) of this section, as to such persons, the amount of tax with respect to such business ~~((shall-be))~~ is equal to the gross proceeds of sales of the business, multiplied by the rate of 0.484 percent.

(3) Upon every person classified by the federal aviation administration as a federal aviation regulation part 145 certificated repair station and that is engaging within this state in the business of making sales at retail that are exempt from the tax imposed under chapter 82.08 RCW by reason of RCW 82.08.0261, 82.08.0262, or 82.08.0263, as to such persons, the amount of tax with respect to such business ~~((shall-be))~~ is equal to the gross proceeds of sales of the business, multiplied by the rate of .2904 percent.

1       **Sec. 606.** RCW 82.04.250 and 2007 c 54 s 5 are each amended to read  
2 as follows:

3       (1) Upon every person engaging within this state in the business of  
4 making sales at retail, except persons taxable as retailers under other  
5 provisions of this chapter, as to such persons, the amount of tax with  
6 respect to such business (~~((shall be))~~) is equal to the gross proceeds of  
7 sales of the business, multiplied by the rate of 0.471 percent.

8       (2) Upon every person engaging within this state in the business of  
9 making sales at retail that are exempt from the tax imposed under  
10 chapter 82.08 RCW by reason of RCW 82.08.0261, 82.08.0262, or  
11 82.08.0263, except persons taxable under RCW 82.04.260(~~((+11))~~) (10), as  
12 to such persons, the amount of tax with respect to such business  
13 (~~((shall be))~~) is equal to the gross proceeds of sales of the business,  
14 multiplied by the rate of 0.484 percent.

15       **Sec. 607.** RCW 82.04.261 and 2007 c 54 s 7 and 2007 c 48 s 4 are  
16 each reenacted and amended to read as follows:

17       (1) In addition to the taxes imposed under RCW 82.04.260(~~((+12))~~)  
18 (11), a surcharge is imposed on those persons who are subject to any of  
19 the taxes imposed under RCW 82.04.260(~~((+12))~~) (11). Except as  
20 otherwise provided in this section, the surcharge is equal to 0.052  
21 percent. The surcharge is added to the rates provided in RCW  
22 82.04.260(~~((+12))~~) (11) (a), (b), (c), and (d). The surcharge and this  
23 section expire July 1, 2024.

24       (2) All receipts from the surcharge imposed under this section  
25 (~~((shall))~~) must be deposited into the forest and fish support account  
26 created in RCW 76.09.405.

27       (3)(a) The surcharge imposed under this section (~~((shall be))~~) is  
28 suspended if:

29       (i) Receipts from the surcharge total at least eight million  
30 dollars during any fiscal biennium; or

31       (ii) The office of financial management certifies to the department  
32 that the federal government has appropriated at least two million  
33 dollars for participation in forest and fish report-related activities  
34 by federally recognized Indian tribes located within the geographical  
35 boundaries of the state of Washington for any federal fiscal year.

36       (b)(i) The suspension of the surcharge under (a)(i) of this  
37 subsection (3) (~~((shall))~~) takes effect on the first day of the calendar

1 month that is at least thirty days after the end of the month during  
2 which the department determines that receipts from the surcharge total  
3 at least eight million dollars during the fiscal biennium. The  
4 surcharge (~~((shall-be))~~) is imposed again at the beginning of the  
5 following fiscal biennium.

6 (ii) The suspension of the surcharge under (a)(ii) of this  
7 subsection (3) (~~((shall))~~) takes effect on the later of the first day of  
8 October of any federal fiscal year for which the federal government  
9 appropriates at least two million dollars for participation in forest  
10 and fish report-related activities by federally recognized Indian  
11 tribes located within the geographical boundaries of the state of  
12 Washington, or the first day of a calendar month that is at least  
13 thirty days following the date that the office of financial management  
14 makes a certification to the department under subsection (5) of this  
15 section. The surcharge (~~((shall-be))~~) is imposed again on the first day  
16 of the following July.

17 (4)(a) If, by October 1st of any federal fiscal year, the office of  
18 financial management certifies to the department that the federal  
19 government has appropriated funds for participation in forest and fish  
20 report-related activities by federally recognized Indian tribes located  
21 within the geographical boundaries of the state of Washington but the  
22 amount of the appropriation is less than two million dollars, the  
23 department (~~((shall))~~) must adjust the surcharge in accordance with this  
24 subsection.

25 (b) The department (~~((shall))~~) must adjust the surcharge by an amount  
26 that the department estimates will cause the amount of funds deposited  
27 into the forest and fish support account for the state fiscal year that  
28 begins July 1st and that includes the beginning of the federal fiscal  
29 year for which the federal appropriation is made, to be reduced by  
30 twice the amount of the federal appropriation for participation in  
31 forest and fish report-related activities by federally recognized  
32 Indian tribes located within the geographical boundaries of the state  
33 of Washington.

34 (c) Any adjustment in the surcharge (~~((shall))~~) takes effect at the  
35 beginning of a calendar month that is at least thirty days after the  
36 date that the office of financial management makes the certification  
37 under subsection (5) of this section.

1 (d) The surcharge (~~((shall-be))~~) is imposed again at the rate  
2 provided in subsection (1) of this section on the first day of the  
3 following state fiscal year unless the surcharge is suspended under  
4 subsection (3) of this section or adjusted for that fiscal year under  
5 this subsection.

6 (e) Adjustments of the amount of the surcharge by the department  
7 are final and (~~((shall))~~) may not be used to challenge the validity of  
8 the surcharge imposed under this section.

9 (f) The department (~~((shall))~~) must provide timely notice to affected  
10 taxpayers of the suspension of the surcharge or an adjustment of the  
11 surcharge.

12 (5) The office of financial management (~~((shall))~~) must make the  
13 certification to the department as to the status of federal  
14 appropriations for tribal participation in forest and fish report-  
15 related activities.

16 **Sec. 608.** RCW 82.04.298 and 2008 c 49 s 1 are each amended to read  
17 as follows:

18 (1) The amount of tax with respect to a qualified grocery  
19 distribution cooperative's sales of groceries or related goods for  
20 resale, excluding items subject to tax under (~~((RCW-82.04.260(4)))~~)  
21 section 602 of this act, to customer-owners of the grocery distribution  
22 cooperative is equal to the gross proceeds of sales of the grocery  
23 distribution cooperative multiplied by the rate of one and one-half  
24 percent.

25 (2) A qualified grocery distribution cooperative is allowed a  
26 deduction from the gross proceeds of sales of groceries or related  
27 goods for resale, excluding items subject to tax under (~~((RCW  
28 82.04.260(4)))~~) section 602 of this act, to customer-owners of the  
29 grocery distribution cooperative that is equal to the portion of the  
30 gross proceeds of sales for resale that represents the actual cost of  
31 the merchandise sold by the grocery distribution cooperative to  
32 customer-owners.

33 (3) The definitions in this subsection apply throughout this  
34 section unless the context clearly requires otherwise.

35 (a) "Grocery distribution cooperative" means an entity that sells  
36 groceries and related items to customer-owners of the grocery  
37 distribution cooperative and has customer-owners, in the aggregate, who

1 own a majority of the outstanding ownership interests of the grocery  
2 distribution cooperative or of the entity controlling the grocery  
3 distribution cooperative. "Grocery distribution cooperative" includes  
4 an entity that controls a grocery distribution cooperative.

5 (b) "Qualified grocery distribution cooperative" means:

6 (i) A grocery distribution cooperative that has been determined by  
7 a court of record of the state of Washington to be not engaged in  
8 wholesaling or making sales at wholesale, within the meaning of RCW  
9 82.04.270 or any similar provision of a municipal ordinance that  
10 imposes a tax on gross receipts, gross proceeds of sales, or gross  
11 income, with respect to purchases made by customer-owners, and  
12 subsequently changes its form of doing business to make sales at  
13 wholesale of groceries or related items to its customer-owners; or

14 (ii) A grocery distribution cooperative that has acquired  
15 substantially all of the assets of a grocery distribution cooperative  
16 described in (b)(i) of this subsection.

17 (c) "Customer-owner" means a person who has an ownership interest  
18 in a grocery distribution cooperative and purchases groceries and  
19 related items at wholesale from that grocery distribution cooperative.

20 (d) "Controlling" means holding fifty percent or more of the voting  
21 interests of an entity and having at least equal power to direct or  
22 cause the direction of the management and policies of the entity,  
23 whether through the ownership of voting securities, by contract, or  
24 otherwise.

25 **Sec. 609.** RCW 82.04.334 and 2007 c 48 s 3 are each amended to read  
26 as follows:

27 This chapter does not apply to any sale of standing timber excluded  
28 from the definition of "sale" in RCW 82.45.010(3). The definitions in  
29 RCW 82.04.260(~~(+12+)~~) (11) apply to this section.

30 **Sec. 610.** RCW 82.04.440 and 2006 c 300 s 8 and 2006 c 84 s 6 are  
31 each reenacted and amended to read as follows:

32 (1) Every person engaged in activities that are subject to tax  
33 under two or more provisions of RCW 82.04.230 through 82.04.298,  
34 inclusive, (~~shall be~~) is taxable under each provision applicable to  
35 those activities.

(2) Persons taxable under RCW 82.04.2909(2), 82.04.250, 82.04.270, 82.04.294(2), or 82.04.260 (1)(b), (c), (~~((+4+),)~~) or (d), (10), or (11), or ((+12+)) section 602(2) of this act with respect to selling products in this state, including those persons who are also taxable under RCW 82.04.261, (~~((shall-be))~~) are allowed a credit against those taxes for any (a) manufacturing taxes paid with respect to the manufacturing of products so sold in this state, and/or (b) extracting taxes paid with respect to the extracting of products so sold in this state or ingredients of products so sold in this state. Extracting taxes taken as credit under subsection (3) of this section may also be taken under this subsection, if otherwise allowable under this subsection. The amount of the credit (~~((shall))~~) may not exceed the tax liability arising under this chapter with respect to the sale of those products.

(3) Persons taxable as manufacturers under RCW 82.04.240 or 82.04.260 (1)(b) or (~~((+12+))~~) (11), including those persons who are also taxable under RCW 82.04.261, (~~((shall-be))~~) are allowed a credit against those taxes for any extracting taxes paid with respect to extracting the ingredients of the products so manufactured in this state. The amount of the credit (~~((shall))~~) may not exceed the tax liability arising under this chapter with respect to the manufacturing of those products.

(4) Persons taxable under RCW 82.04.230, 82.04.240, 82.04.2909(1), 82.04.294(1), 82.04.2404, or 82.04.260 (1), (2), (~~((+4+),)~~) (10), or (11), or ((+12+)) section 602(1) of this act, including those persons who are also taxable under RCW 82.04.261, with respect to extracting or manufacturing products in this state (~~((shall-be))~~) are allowed a credit against those taxes for any (i) gross receipts taxes paid to another state with respect to the sales of the products so extracted or manufactured in this state, (ii) manufacturing taxes paid with respect to the manufacturing of products using ingredients so extracted in this state, or (iii) manufacturing taxes paid with respect to manufacturing activities completed in another state for products so manufactured in this state. The amount of the credit (~~((shall))~~) may not exceed the tax liability arising under this chapter with respect to the extraction or manufacturing of those products.

(5) For the purpose of this section:

(a) "Gross receipts tax" means a tax:

(i) Which is imposed on or measured by the gross volume of

1 business, in terms of gross receipts or in other terms, and in the  
2 determination of which the deductions allowed would not constitute the  
3 tax an income tax or value added tax; and

4 (ii) Which is also not, pursuant to law or custom, separately  
5 stated from the sales price.

6 (b) "State" means (i) the state of Washington, (ii) a state of the  
7 United States other than Washington, or any political subdivision of  
8 such other state, (iii) the District of Columbia, and (iv) any foreign  
9 country or political subdivision thereof.

10 (c) "Manufacturing tax" means a gross receipts tax imposed on the  
11 act or privilege of engaging in business as a manufacturer, and  
12 includes (i) the taxes imposed in RCW 82.04.240, 82.04.2404,  
13 82.04.2909(1), 82.04.260 (1), (2), (~~((4))~~) (10), and (11), (~~and~~  
14 ~~(12)~~) section 602(1) of this act, and 82.04.294(1); (ii) the tax  
15 imposed under RCW 82.04.261 on persons who are engaged in business as  
16 a manufacturer; and (iii) similar gross receipts taxes paid to other  
17 states.

18 (d) "Extracting tax" means a gross receipts tax imposed on the act  
19 or privilege of engaging in business as an extractor, and includes (i)  
20 the tax imposed on extractors in RCW 82.04.230 and 82.04.260(~~((12))~~)  
21 (11); (ii) the tax imposed under RCW 82.04.261 on persons who are  
22 engaged in business as an extractor; and (iii) similar gross receipts  
23 taxes paid to other states.

24 (e) "Business", "manufacturer", "extractor", and other terms used  
25 in this section have the meanings given in RCW 82.04.020 through  
26 82.04.212, notwithstanding the use of those terms in the context of  
27 describing taxes imposed by other states.

28 **Sec. 611.** RCW 82.04.4463 and 2008 c 81 s 8 are each amended to  
29 read as follows:

30 (1) In computing the tax imposed under this chapter, a credit is  
31 allowed for property taxes and leasehold excise taxes paid during the  
32 calendar year.

33 (2) The credit is equal to:

34 (a)(i)(A) Property taxes paid on buildings, and land upon which the  
35 buildings are located, constructed after December 1, 2003, and used  
36 exclusively in manufacturing commercial airplanes or components of such  
37 airplanes; and

1 (B) Leasehold excise taxes paid with respect to buildings  
2 constructed after January 1, 2006, the land upon which the buildings  
3 are located, or both, if the buildings are used exclusively in  
4 manufacturing commercial airplanes or components of such airplanes; and

5 (C) Property taxes or leasehold excise taxes paid on, or with  
6 respect to, buildings constructed after June 30, 2008, the land upon  
7 which the buildings are located, or both, and used exclusively for  
8 aerospace product development or in providing aerospace services, by  
9 persons not within the scope of (a)(i)(A) and (B) of this subsection

10 (2) and are: (I) Engaged in manufacturing tooling specifically  
11 designed for use in manufacturing commercial airplanes or their  
12 components; or (II) taxable under RCW 82.04.290(3) or 82.04.250(3); or

13 (ii) Property taxes attributable to an increase in assessed value  
14 due to the renovation or expansion, after: (A) December 1, 2003, of a  
15 building used exclusively in manufacturing commercial airplanes or  
16 components of such airplanes; and (B) June 30, 2008, of buildings used  
17 exclusively for aerospace product development or in providing aerospace  
18 services, by persons not within the scope of (a)(ii)(A) of this  
19 subsection (2) and are: (I) Engaged in manufacturing tooling  
20 specifically designed for use in manufacturing commercial airplanes or  
21 their components; or (II) taxable under RCW 82.04.290(3) or  
22 82.04.250(3); and

23 (b) An amount equal to:

24 (i)(A) Property taxes paid, by persons taxable under RCW  
25 82.04.260(~~((+11))~~) (10)(a), on machinery and equipment exempt under RCW  
26 82.08.02565 or 82.12.02565 and acquired after December 1, 2003;

27 (B) Property taxes paid, by persons taxable under RCW  
28 82.04.260(~~((+11))~~) (10)(b), on machinery and equipment exempt under RCW  
29 82.08.02565 or 82.12.02565 and acquired after June 30, 2008; or

30 (C) Property taxes paid, by persons taxable under RCW  
31 (~~((82.04.0250(3)) - {82.04.250(3)})~~) 82.04.250(3) or 82.04.290(3), on  
32 computer hardware, computer peripherals, and software exempt under RCW  
33 82.08.975 or 82.12.975 and acquired after June 30, 2008.

34 (ii) For purposes of determining the amount eligible for credit  
35 under (i)(A) and (B) of this subsection (2)(b), the amount of property  
36 taxes paid is multiplied by a fraction.

37 (~~((+1))~~) (A) The numerator of the fraction is the total taxable  
38 amount subject to the tax imposed under RCW 82.04.260(~~((+11))~~) (10) (a)



1 or (b) on the applicable business activities of manufacturing  
2 commercial airplanes, components of such airplanes, or tooling  
3 specifically designed for use in the manufacturing of commercial  
4 airplanes or components of such airplanes.

5 ~~((+II+))~~ (B) The denominator of the fraction is the total taxable  
6 amount subject to the tax imposed under all manufacturing  
7 classifications in chapter 82.04 RCW.

8 ~~((+III+))~~ (C) For purposes of both the numerator and denominator of  
9 the fraction, the total taxable amount refers to the total taxable  
10 amount required to be reported on the person's returns for the calendar  
11 year before the calendar year in which the credit under this section is  
12 earned. The department may provide for an alternative method for  
13 calculating the numerator in cases where the tax rate provided in RCW  
14 82.04.260~~((+II+))~~ (10) for manufacturing was not in effect during the  
15 full calendar year before the calendar year in which the credit under  
16 this section is earned.

17 ~~((+IV+))~~ (D) No credit is available under (b)(i)(A) or (B) of this  
18 subsection (2) if either the numerator or the denominator of the  
19 fraction is zero. If the fraction is greater than or equal to nine-  
20 tenths, then the fraction is rounded to one.

21 ~~((+V+))~~ (E) As used in ~~((+III+))~~ (b)(ii)(C) of this subsection  
22 (2)~~((+b)(ii)(C+))~~, "returns" means the tax returns for which the tax  
23 imposed under this chapter is reported to the department.

24 (3) The definitions in this subsection apply throughout this  
25 section, unless the context clearly indicates otherwise.

26 (a) "Aerospace product development" has the same meaning as  
27 provided in RCW 82.04.4461.

28 (b) "Aerospace services" has the same meaning given in RCW  
29 82.08.975.

30 (c) "Commercial airplane" and "component" have the same meanings as  
31 provided in RCW 82.32.550.

32 (4) A credit earned during one calendar year may be carried over to  
33 be credited against taxes incurred in a subsequent calendar year, but  
34 may not be carried over a second year. No refunds may be granted for  
35 credits under this section.

36 (5) In addition to all other requirements under this title, a  
37 person taking the credit under this section must report as required  
38 under RCW 82.32.545.

(6) This section expires July 1, 2024.

**Sec. 612.** RCW 82.08.806 and 2009 c 461 s 5 are each amended to read as follows:

(1) The tax levied by RCW 82.08.020 does not apply to sales, to a printer or publisher, of computer equipment, including repair parts and replacement parts for such equipment, when the computer equipment is used primarily in the printing or publishing of any printed material, or to sales of or charges made for labor and services rendered in respect to installing, repairing, cleaning, altering, or improving the computer equipment. This exemption applies only to computer equipment not otherwise exempt under RCW 82.08.02565.

(2) A person taking the exemption under this section must keep records necessary for the department to verify eligibility under this section. This exemption is available only when the purchaser provides the seller with an exemption certificate in a form and manner prescribed by the department. The seller (~~((shall))~~) must retain a copy of the certificate for the seller's files.

(3) The definitions in this subsection (3) apply throughout this section, unless the context clearly requires otherwise.

(a) "Computer" has the same meaning as in RCW 82.04.215.

(b) "Computer equipment" means a computer and the associated physical components that constitute a computer system, including monitors, keyboards, printers, modems, scanners, pointing devices, and other computer peripheral equipment, cables, servers, and routers. "Computer equipment" also includes digital cameras and computer software.

(c) "Computer software" has the same meaning as in RCW 82.04.215.

(d) "Primarily" means greater than fifty percent as measured by time.

(e) "Printer or publisher" means a person, as defined in RCW 82.04.030, who is subject to tax under RCW 82.04.260(~~((+14+))~~) (13) or 82.04.280(1).

(4) "Computer equipment" does not include computer equipment that is used primarily for administrative purposes including but not limited to payroll processing, accounting, customer service, telemarketing, and collection. If computer equipment is used simultaneously for administrative and nonadministrative purposes, the administrative use

1    (~~shall~~) must be disregarded during the period of simultaneous use for  
2    purposes of determining whether the computer equipment is used  
3    primarily for administrative purposes.

4        **Sec. 613.** RCW 82.32.545 and 2008 c 81 s 10 are each amended to  
5    read as follows:

6        (1) The legislature finds that accountability and effectiveness are  
7    important aspects of setting tax policy. In order to make policy  
8    choices regarding the best use of limited state resources the  
9    legislature needs information on how a tax incentive is used.

10        (2)(a) A person who reports taxes under RCW 82.04.260(~~(+11+)~~) (10),  
11    82.04.250(3), or 82.04.290(3), or who claims an exemption or credit  
12    under RCW 82.04.4461, 82.08.980, 82.12.980, 82.29A.137, 84.36.655, and  
13    82.04.4463 (~~shall~~) must make an annual report to the department  
14    detailing employment, wages, and employer-provided health and  
15    retirement benefits for employment positions in Washington. However,  
16    persons engaged in manufacturing commercial airplanes or components of  
17    such airplanes may report employment, wage, and benefit information per  
18    job at the manufacturing site. The report (~~shall~~) may not include  
19    names of employees. The report (~~shall~~) must also detail employment  
20    by the total number of full-time, part-time, and temporary positions.  
21    The first report filed under this subsection (~~shall~~) must include  
22    employment, wage, and benefit information for the twelve-month period  
23    immediately before first use of a preferential tax rate under RCW  
24    82.04.260(~~(+11+)~~) (10), 82.04.250(3), or 82.04.290(3), or tax exemption  
25    or credit under RCW 82.04.4461, 82.08.980, 82.12.980, 82.29A.137,  
26    84.36.655, and 82.04.4463, unless a survey covering this twelve-month  
27    period was filed as required by a statute repealed by chapter 81, Laws  
28    of 2008. The report is due by March 31st following any year in which  
29    a preferential tax rate under RCW 82.04.260(~~(+11+)~~) (10), 82.04.250(3),  
30    or 82.04.290(3), is used, or tax exemption or credit under RCW  
31    82.04.4461, 82.08.980, 82.12.980, 82.29A.137, 84.36.655, and 82.04.4463  
32    is taken. This information is not subject to the confidentiality  
33    provisions of RCW 82.32.330 and may be disclosed to the public upon  
34    request.

35        (b) If a person fails to submit an annual report under (a) of this  
36    subsection by the due date of the report, the department (~~shall~~) must  
37    declare the amount of taxes exempted or credited, or reduced in the

1 case of the preferential business and occupation tax rate, for that  
2 year to be immediately due and payable. Excise taxes payable under  
3 this subsection are subject to interest but not penalties, as provided  
4 under this chapter. This information is not subject to the  
5 confidentiality provisions of RCW 82.32.330 and may be disclosed to the  
6 public upon request.

7 (3) By November 1, 2010, and by November 1, 2023, the fiscal  
8 committees of the house of representatives and the senate, in  
9 consultation with the department, ~~((shall))~~ must report to the  
10 legislature on the effectiveness of chapter 1, Laws of 2003 2nd sp.  
11 sess., chapter 177, Laws of 2006, and chapter 81, Laws of 2008 in  
12 regard to keeping Washington competitive. The report ~~((shall))~~ must  
13 measure the effect of these laws on job retention, net jobs created for  
14 Washington residents, company growth, diversification of the state's  
15 economy, cluster dynamics, and other factors as the committees select.  
16 The reports ~~((shall))~~ must include a discussion of principles to apply  
17 in evaluating whether the legislature should reenact any or all of the  
18 tax preferences in chapter 1, Laws of 2003 2nd sp. sess., chapter 177,  
19 Laws of 2006, and chapter 81, Laws of 2008.

20 **Sec. 614.** RCW 82.32.550 and 2008 c 81 s 12 are each amended to  
21 read as follows:

22 ~~(1)((a) Chapter 1, Laws of 2003 2nd sp. sess. takes effect on the~~  
23 ~~first day of the month in which the governor and a manufacturer of~~  
24 ~~commercial airplanes sign a memorandum of agreement regarding an~~  
25 ~~affirmative final decision to site a significant commercial airplane~~  
26 ~~final assembly facility in Washington state. The department shall~~  
27 ~~provide notice of the effective date of chapter 1, Laws of 2003 2nd sp.~~  
28 ~~sess. to affected taxpayers, the legislature, and others as deemed~~  
29 ~~appropriate by the department.~~

30 ~~(b) Chapter 1, Laws of 2003 2nd sp. sess. is contingent upon the~~  
31 ~~siting of a significant commercial airplane final assembly facility in~~  
32 ~~the state of Washington. If a memorandum of agreement under subsection~~  
33 ~~(1) of this section is not signed by June 30, 2005, chapter 1, Laws of~~  
34 ~~2003 2nd sp. sess. is null and void.~~

35 ~~(c)(i) The rate in RCW 82.04.260(11)(a)(ii) takes effect July 1,~~  
36 ~~2007.~~

1       ~~(ii) If on December 31, 2007, final assembly of a superefficient~~  
2 ~~airplane has not begun in Washington state, the department shall~~  
3 ~~provide notice of such to affected taxpayers, the legislature, and~~  
4 ~~others as deemed appropriate by the department.~~

5       ~~(2) The definitions in this subsection apply throughout this~~  
6 ~~section.~~

7       ~~(a))~~ "Commercial airplane" has its ordinary meaning, which is an  
8 airplane certified by the federal aviation administration for  
9 transporting persons or property, and any military derivative of such  
10 an airplane.

11       ~~((b))~~ (2) "Component" means a part or system certified by the  
12 federal aviation administration for installation or assembly into a  
13 commercial airplane.

14       ~~((c) "Final assembly of a superefficient airplane" means the~~  
15 ~~activity of assembling an airplane from components parts necessary for~~  
16 ~~its mechanical operation such that the finished commercial airplane is~~  
17 ~~ready to deliver to the ultimate consumer.~~

18       ~~(d) "Significant commercial airplane final assembly facility" means~~  
19 ~~a location with the capacity to produce at least thirty six~~  
20 ~~superefficient airplanes a year.~~

21       ~~(e) "Siting" means a final decision by a manufacturer to locate a~~  
22 ~~significant commercial airplane final assembly facility in Washington~~  
23 ~~state.~~

24       ~~(f))~~ (3) "Superefficient airplane" means a twin aisle airplane  
25 that carries between two hundred and three hundred fifty passengers,  
26 with a range of more than seven thousand two hundred nautical miles, a  
27 cruising speed of approximately mach .85, and that uses fifteen to  
28 twenty percent less fuel than other similar airplanes on the market.

29       **Sec. 615.** RCW 82.32.630 and 2007 c 48 s 6 are each amended to read  
30 as follows:

31       (1) The legislature finds that accountability and effectiveness are  
32 important aspects of setting tax policy. In order to make policy  
33 choices regarding the best use of limited state resources, the  
34 legislature needs information on how a tax incentive is used.

35       (2)(a) A person who reports taxes under RCW 82.04.260(~~((12) shall))~~  
36 (11) must file a complete annual survey with the department. The  
37 survey is due by March 31st following any year in which a person

1 reports taxes under RCW 82.04.260(~~((+12+))~~) (11). The department may  
2 extend the due date for timely filing of annual surveys under this  
3 section as provided in RCW 82.32.590. The survey (~~((shall))~~) must  
4 include the amount of tax reduced under the preferential rate in RCW  
5 82.04.260(~~((+12+))~~) (11). The survey (~~((shall))~~) must also include the  
6 following information for employment positions in Washington:

7 (i) The number of total employment positions;

8 (ii) Full-time, part-time, and temporary employment positions as a  
9 percent of total employment;

10 (iii) The number of employment positions according to the following  
11 wage bands: Less than thirty thousand dollars; thirty thousand dollars  
12 or greater, but less than sixty thousand dollars; and sixty thousand  
13 dollars or greater. A wage band containing fewer than three  
14 individuals may be combined with another wage band; and

15 (iv) The number of employment positions that have employer-provided  
16 medical, dental, and retirement benefits, by each of the wage bands.

17 (b) The first survey filed under this subsection (~~((shall))~~) must  
18 include employment, wage, and benefit information for the twelve-month  
19 period immediately before first use of a preferential tax rate under  
20 RCW 82.04.260(~~((+12+))~~) (11).

21 (c) As part of the annual survey, the department may request  
22 additional information, including the amount of investment in equipment  
23 used in the activities taxable under the preferential rate in RCW  
24 82.04.260(~~((+12+))~~) (11), necessary to measure the results of, or  
25 determine eligibility for, the preferential tax rate in RCW  
26 82.04.260(~~((+12+))~~) (11).

27 (d) All information collected under this section, except the amount  
28 of the tax reduced under the preferential rate in RCW 82.04.260(~~((+12+))~~)  
29 (11), is deemed taxpayer information under RCW 82.32.330. Information  
30 on the amount of tax reduced is not subject to the confidentiality  
31 provisions of RCW 82.32.330 and may be disclosed to the public upon  
32 request, except as provided in (e) of this subsection. If the amount  
33 of the tax reduced as reported on the survey is different than the  
34 amount actually reduced based on the taxpayer's excise tax returns or  
35 otherwise allowed by the department, the amount actually reduced may be  
36 disclosed.

37 (e) Persons for whom the actual amount of the tax reduction is less

1 than ten thousand dollars during the period covered by the survey may  
2 request the department to treat the amount of the tax reduction as  
3 confidential under RCW 82.32.330.

4 (f) Small harvesters as defined in RCW 84.33.035 are not required  
5 to file the annual survey under this section.

6 (3) If a person fails to submit a complete annual survey under  
7 subsection (2) of this section by the due date or any extension under  
8 RCW 82.32.590, the department (~~((shall))~~) must declare the amount of  
9 taxes reduced under the preferential rate in RCW 82.04.260(~~((+12+))~~) (11)  
10 for the period covered by the survey to be immediately due and payable.  
11 The department (~~((shall))~~) must assess interest, but not penalties, on  
12 the taxes. Interest (~~((shall))~~) must be assessed at the rate provided  
13 for delinquent excise taxes under this chapter, retroactively to the  
14 date the reduced taxes were due, and (~~((shall))~~) will accrue until the  
15 amount of the reduced taxes is repaid.

16 (4) The department (~~((shall))~~) must use the information from the  
17 annual survey required under subsection (2) of this section to prepare  
18 summary descriptive statistics by category. The department (~~((shall))~~)  
19 must report these statistics to the legislature each year by September  
20 1st. The requirement to prepare and report summary descriptive  
21 statistics (~~((shall))~~) ceases after September 1, 2025.

22 (5) By November 1, 2011, and November 1, 2023, the fiscal  
23 committees of the house of representatives and the senate, in  
24 consultation with the department, (~~((shall))~~) must report to the  
25 legislature on the effectiveness of the preferential tax rate provided  
26 in RCW 82.04.260(~~((+12+))~~) (11). The report shall measure the effect of  
27 the preferential tax rate provided in RCW 82.04.260(~~((+12+))~~) (11) on job  
28 retention, net jobs created for Washington residents, company growth,  
29 and other factors as the committees select. The report (~~((shall))~~) must  
30 include a discussion of principles to apply in evaluating whether the  
31 legislature should continue the preferential tax rate provided in RCW  
32 82.04.260(~~((+12+))~~) (11).

33 **Sec. 616.** RCW 82.32.632 and 2009 c 461 s 6 are each amended to  
34 read as follows:

35 (1)(a) Every person claiming the preferential rate provided in RCW  
36 82.04.260(~~((+14+))~~) (13) must file a complete annual report with the  
37 department. The report is due by March 31st of the year following any

1 calendar year in which a person is eligible to claim the preferential  
2 rate provided in RCW 82.04.260(~~((14))~~) (13). The department may extend  
3 the due date for timely filing of annual reports under this section as  
4 provided in RCW 82.32.590.

5 (b) The report must include information detailing employment,  
6 wages, and employer-provided health and retirement benefits for  
7 employment positions in Washington for the year that the preferential  
8 rate was claimed. The report must not include names of employees. The  
9 report must also detail employment by the total number of full-time,  
10 part-time, and temporary positions for the year that the tax preference  
11 was claimed.

12 (c) If a person filing a report under this section did not file a  
13 report with the department in the previous calendar year, the report  
14 filed under this section must also include employment, wage, and  
15 benefit information for the calendar year immediately preceding the  
16 calendar year for which the preferential rate provided in RCW  
17 82.04.260(~~((14))~~) (13) was claimed.

18 (2) As part of the annual report, the department may request  
19 additional information necessary to measure the results of, or  
20 determine eligibility for, the preferential rate provided in RCW  
21 82.04.260(~~((14))~~) (13).

22 (3) Other than information requested under subsection (2) of this  
23 section, the information contained in an annual report filed under this  
24 section is not subject to the confidentiality provisions of RCW  
25 82.32.330 and may be disclosed to the public upon request.

26 (4) Except as otherwise provided by law, if a person claims the  
27 preferential rate provided in RCW 82.04.260(~~((14))~~) (13) but fails to  
28 submit a report by the due date or any extension under RCW 82.32.590,  
29 the department must declare the amount of the tax preference claimed  
30 for the previous calendar year to be immediately due and payable. The  
31 department must assess interest, but not penalties, on the amounts due  
32 under this subsection. The interest must be assessed at the rate  
33 provided for delinquent taxes under this chapter, retroactively to the  
34 date the tax preference was claimed, and accrues until the taxes for  
35 which the tax preference was claimed are repaid. Amounts due under  
36 this subsection are not subject to the confidentiality provisions of  
37 RCW 82.32.330 and may be disclosed to the public upon request.



(5) By November 1, 2014, and November 1, 2016, the fiscal committees of the house of representatives and the senate, in consultation with the department, must report to the legislature on the effectiveness of the preferential rate provided in RCW 82.04.260(~~((+14+))~~) (13). The report must measure the effect of the preferential rate provided in RCW 82.04.260(~~((+14+))~~) (13) on job retention, net jobs created for Washington residents, industry growth, and other factors as the committees select. The report must include a discussion of principles to apply in evaluating whether the legislature should continue the preferential rate provided in RCW 82.04.260(~~((+14+))~~) (13).

**Sec. 617.** RCW 82.45.195 and 2007 c 48 s 7 are each amended to read as follows:

A sale of standing timber is exempt from tax under this chapter if the gross income from such sale is taxable under RCW 82.04.260(~~((+12+))~~) (11)(d).

**Sec. 618.** RCW 35.102.150 and 2009 c 461 s 4 are each amended to read as follows:

Notwithstanding RCW 35.102.130, a city that imposes a business and occupation tax must allocate a person's gross income from the activities of printing, and of publishing newspapers, periodicals, or magazines, to the principal place in this state from which the taxpayer's business is directed or managed. As used in this section, the activities of printing, and of publishing newspapers, periodicals, or magazines are those activities to which the tax rates in RCW 82.04.260(~~((+14+))~~) (13) and 82.04.280(1) apply.

**Sec. 619.** RCW 48.14.080 and 2009 c 535 s 1102 are each amended to read as follows:

(1) As to insurers, other than title insurers and taxpayers under RCW 48.14.0201, the taxes imposed by this title (~~((shall-be))~~) are in lieu of all other taxes, except as otherwise provided in this section.

(2) Subsection (1) of this section does not apply with respect to:

(a) Taxes on real and tangible personal property;

(b) Excise taxes on the sale, purchase, use, or possession of (i) real property; (ii) tangible personal property; (iii) extended

warranties; (iv) services, including digital automated services as defined in RCW 82.04.192; and (v) digital goods and digital codes as those terms are defined in RCW 82.04.192; and

(c) The tax imposed in RCW 82.04.260(~~((+10+))~~) (9), regarding public and nonprofit hospitals.

(3) For the purposes of this section, the term "taxes" includes taxes imposed by the state or any county, city, town, municipal corporation, quasi-municipal corporation, or other political subdivision.

## **PART VII**

### **Suspending the Sales and Use Tax Exemption for Livestock Nutrient Equipment and Facilities**

**Sec. 701.** RCW 82.08.890 and 2009 c 469 s 601 are each amended to read as follows:

(1) The tax levied by RCW 82.08.020 does not apply to sales to eligible persons of:

(a) Qualifying livestock nutrient management equipment;

(b) Labor and services rendered in respect to installing, repairing, cleaning, altering, or improving qualifying livestock nutrient management equipment; and

(c)(i) Labor and services rendered in respect to repairing, cleaning, altering, or improving of qualifying livestock nutrient management facilities, or to tangible personal property that becomes an ingredient or component of qualifying livestock nutrient management facilities in the course of repairing, cleaning, altering, or improving of such facilities.

(ii) The exemption provided in this subsection (1)(c) does not apply to the sale of or charge made for: (A) Labor and services rendered in respect to the constructing of new, or replacing previously existing, qualifying livestock nutrient management facilities; or (B) tangible personal property that becomes an ingredient or component of qualifying livestock nutrient management facilities during the course of constructing new, or replacing previously existing, qualifying livestock nutrient management facilities.

(2) The exemption provided in subsection (1) of this section applies to sales made after the livestock nutrient management plan is:

1 (a) Certified under chapter 90.64 RCW; (b) approved as part of the  
2 permit issued under chapter 90.48 RCW; or (c) approved as required  
3 under subsection (4)(c)(iii) of this section.

4 (3)(a) The department of revenue must provide an exemption  
5 certificate to an eligible person upon application by that person. The  
6 department of agriculture must provide a list of eligible persons, as  
7 defined in subsection (4)(c)(i) and (ii) of this section, to the  
8 department of revenue. Conservation districts must maintain lists of  
9 eligible persons as defined in subsection (4)(c)(iii) of this section  
10 to allow the department of revenue to verify eligibility. The  
11 application must be in a form and manner prescribed by the department  
12 and must contain information regarding the location of the dairy or  
13 animal feeding operation and other information the department may  
14 require.

15 (b) A person claiming an exemption under this section must keep  
16 records necessary for the department to verify eligibility under this  
17 section. The exemption is available only when the buyer provides the  
18 seller with an exemption certificate in a form and manner prescribed by  
19 the department. The seller must retain a copy of the certificate for  
20 the seller's files.

21 (4) The definitions in this subsection apply to this section and  
22 RCW 82.12.890 unless the context clearly requires otherwise:

23 (a) "Animal feeding operation" means a lot or facility, other than  
24 an aquatic animal production facility, where the following conditions  
25 are met:

26 (i) Animals, other than aquatic animals, have been, are, or will be  
27 stabled or confined and fed or maintained for a total of forty-five  
28 days or more in any twelve-month period; and

29 (ii) Crops, vegetation, forage growth, or postharvest residues are  
30 not sustained in the normal growing season over any portion of the lot  
31 or facility.

32 (b) "Conservation district" means a subdivision of state government  
33 organized under chapter 89.08 RCW.

34 (c) "Eligible person" means a person: (i) Licensed to produce milk  
35 under chapter 15.36 RCW who has a certified dairy nutrient management  
36 plan, as required by chapter 90.64 RCW; (ii) who owns an animal feeding  
37 operation and has a permit issued under chapter 90.48 RCW; or (iii) who  
38 owns an animal feeding operation and has a nutrient management plan

1 approved by a conservation district as meeting natural resource  
2 conservation service field office technical guide standards and who  
3 possesses an exemption certificate under RCW 82.08.855.

4 (d) "Handling and treatment of livestock manure" means the  
5 activities of collecting, storing, moving, or transporting livestock  
6 manure, separating livestock manure solids from liquids, or applying  
7 livestock manure to the agricultural lands of an eligible person other  
8 than through the use of pivot or linear type traveling irrigation  
9 systems.

10 (e) "Permit" means either a state waste discharge permit or a  
11 national pollutant discharge elimination system permit, or both.

12 (f) "Qualifying livestock nutrient management equipment" means the  
13 following tangible personal property for exclusive use in the handling  
14 and treatment of livestock manure, including repair and replacement  
15 parts for such equipment: (i) Aerators; (ii) agitators; (iii) augers;  
16 (iv) conveyers; (v) gutter cleaners; (vi) hard-hose reel traveler  
17 irrigation systems; (vii) lagoon and pond liners and floating covers;  
18 (viii) loaders; (ix) manure composting devices; (x) manure spreaders;  
19 (xi) manure tank wagons; (xii) manure vacuum tanks; (xiii) poultry  
20 house cleaners; (xiv) poultry house flame sterilizers; (xv) poultry  
21 house washers; (xvi) poultry litter saver machines; (xvii) pipes;  
22 (xviii) pumps; (xix) scrapers; (xx) separators; (xxi) slurry injectors  
23 and hoses; and (xxii) wheelbarrows, shovels, and pitchforks.

24 (g) "Qualifying livestock nutrient management facilities" means the  
25 following structures and facilities for exclusive use in the handling  
26 and treatment of livestock manure: (i) Flush systems; (ii) lagoons;  
27 (iii) liquid livestock manure storage structures, such as concrete  
28 tanks or glass-lined steel tanks; and (iv) structures used solely for  
29 the dry storage of manure, including roofed stacking facilities.

30 (5) The exemption under this section does not apply to sales made  
31 from April 1, 2010, through June 30, 2013.

32 **Sec. 702.** RCW 82.12.890 and 2009 c 469 s 602 are each amended to  
33 read as follows:

34 (1) The provisions of this chapter do not apply with respect to the  
35 use by an eligible person of:

36 (a) Qualifying livestock nutrient management equipment;

1 (b) Labor and services rendered in respect to installing,  
2 repairing, cleaning, altering, or improving qualifying livestock  
3 nutrient management equipment; and

4 (c)(i) Tangible personal property that becomes an ingredient or  
5 component of qualifying livestock nutrient management facilities in the  
6 course of repairing, cleaning, altering, or improving of such  
7 facilities.

8 (ii) The exemption provided in this subsection (1)(c) does not  
9 apply to the use of tangible personal property that becomes an  
10 ingredient or component of qualifying livestock nutrient management  
11 facilities during the course of constructing new, or replacing  
12 previously existing, qualifying livestock nutrient management  
13 facilities.

14 (2)(a) To be eligible, the equipment and facilities must be used  
15 exclusively for activities necessary to maintain a livestock nutrient  
16 management plan.

17 (b) The exemption applies to the use of tangible personal property  
18 and labor and services made after the livestock nutrient management  
19 plan is: (i) Certified under chapter 90.64 RCW; (ii) approved as part  
20 of the permit issued under chapter 90.48 RCW; or (iii) approved as  
21 required under RCW 82.08.890(4)(c)(iii).

22 (3) The exemption certificate and recordkeeping requirements of RCW  
23 82.08.890 apply to this section. The definitions in RCW 82.08.890  
24 apply to this section.

25 (4) The exemption under this section does not apply to the use of  
26 tangible personal property and services if first use of the property or  
27 services occurs in this state from April 1, 2010, through June 30,  
28 2013.

## 29 PART VIII

### 30 **Ending the Preferential Business and Occupation Tax Treatment Received** 31 **by Directors of Corporations**

32 NEW SECTION. **Sec. 801.** (1) In adopting the state's business and  
33 occupation tax, the legislature intended to tax virtually all business  
34 activities carried on within the state. See Simpson Inv. Co. v. Dep't  
35 of Revenue, 141 Wn.2d 139, 149 (2000). The legislature recognizes that  
36 the business and occupation tax applies to all activities engaged in

1 with the object of gain, benefit, or advantage to the taxpayer or to  
2 another person or class, directly or indirectly, unless a specific  
3 exemption applies.

4 (2) One of the major business and occupation tax exemptions is  
5 provided in RCW 82.04.360 for income earned as an employee or servant  
6 as distinguished from income earned as an independent contractor. The  
7 legislature's intent in providing this exemption was to exempt employee  
8 wages from the business and occupation tax but not to exempt income  
9 earned as an independent contractor.

10 (3) The legislature finds that corporate directors are not  
11 employees or servants of the corporation whose board they serve on and  
12 therefore are not entitled to a business and occupation tax exemption  
13 under RCW 82.04.360. The legislature further finds that there are no  
14 business and occupation tax exemptions for compensation received for  
15 serving as a member of a corporation's board of directors.

16 (4) The legislature also finds that there is a widespread  
17 misunderstanding among corporate directors that the business and  
18 occupation tax does not apply to the compensation they receive for  
19 serving as a director of a corporation. It is the legislature's  
20 expectation that the department of revenue will take appropriate  
21 measures to ensure that corporate directors understand and comply with  
22 their business and occupation tax obligations with respect to their  
23 director compensation. However, because of the widespread  
24 misunderstanding by corporate directors of their liability for business  
25 and occupation tax on director compensation, the legislature finds that  
26 it is appropriate in this unique situation to provide limited relief  
27 against the retroactive assessment of business and occupation taxes on  
28 corporate director compensation.

29 (5) The legislature also reaffirms its intent that all income of  
30 all independent contractors is subject to business and occupation tax  
31 unless specifically exempt under the Constitution or laws of this state  
32 or the United States.

33 **Sec. 802.** RCW 82.04.360 and 1991 c 324 s 19 and 1991 c 275 s 2 are  
34 each reenacted and amended to read as follows:

35 (1) This chapter (~~(shall)~~) does not apply to any person in respect  
36 to his or her employment in the capacity of an employee or servant as  
37 distinguished from that of an independent contractor. For the purposes

1 of this section, the definition of employee (~~shall~~) includes those  
2 persons that are defined in section 3121(d)(3)(B) of the federal  
3 internal revenue code of 1986, as amended through January 1, 1991.

4 (2) (~~(A—booth renter, —as—defined—by—RCW—18.16.020,—is—an~~  
5 ~~independent contractor for purposes of this chapter.)~~) Until April 1,  
6 2010, this chapter does not apply to amounts received by an individual  
7 from a corporation as compensation for serving as a member of that  
8 corporation's board of directors. Beginning April 1, 2010, such  
9 amounts are taxable under RCW 82.04.290(2).

10 NEW SECTION. Sec. 803. The sole reason for deleting the language  
11 in RCW 82.04.360(2) is because RCW 18.16.020 no longer defines the term  
12 "booth renter." This should not be construed as a substantive change  
13 in the law.

14 **PART IX**  
15 **Airplane Excise Tax**

16 **Sec. 901.** RCW 82.48.010 and 1995 c 318 s 4 are each amended to  
17 read as follows:

18 For the purposes of this chapter, unless otherwise required by the  
19 context:

20 (1) "Department" means the department of licensing.

21 (2) "Aircraft" means any weight-carrying device or structure for  
22 navigation of the air which is designed to be supported by the air;

23 (~~((2) "Secretary" means the secretary of transportation;))~~)

24 (3) "Person" includes a firm, partnership, limited liability  
25 company, or corporation(~~(;~~

26 ~~(4) "Small multi-engine fixed wing" means any piston-driven multi-~~  
27 ~~engine fixed wing aircraft with a maximum gross weight as listed by the~~  
28 ~~manufacturer of less than seventy-five hundred pounds; and~~

29 ~~(5) "Large multi-engine fixed wing" means any piston-driven multi-~~  
30 ~~engine fixed wing aircraft with a maximum gross weight as listed by the~~  
31 ~~manufacturer of seventy-five hundred pounds or more)).~~

32 **Sec. 902.** RCW 82.48.020 and 2000 c 229 s 4 are each amended to  
33 read as follows:

34 (1) An annual excise tax is hereby imposed for the privilege of

using any aircraft in the state. A current certificate of airworthiness with a current inspection date from the appropriate federal agency and/or the purchase of aviation fuel (~~((shall))~~) constitutes the necessary evidence of aircraft use or intended use. (~~((The tax shall))~~) The amount of the tax is five-tenths of one percent of the taxable value of the aircraft, as determined under section 903 of this act.

(2) The tax imposed under subsection (1) of this section on aircraft with a date of manufacture before December 31, 1970, may not exceed the following:

| <u>Type of aircraft</u>                 | <u>Tax</u>   |
|---|--------------|
| <u>Single engine fixed wing</u>         | <u>\$100</u> |
| <u>Small multiengine fixed wing</u>     | <u>130</u>   |
| <u>Large multiengine fixed wing</u>     | <u>160</u>   |
| <u>Turboprop multiengine fixed wing</u> | <u>200</u>   |
| <u>Turbojet multiengine fixed wing</u>  | <u>250</u>   |
| <u>Helicopter</u>                       | <u>150</u>   |
| <u>Sailplane</u>                        | <u>40</u>    |
| <u>Lighter than air</u>                 | <u>40</u>    |
| <u>Home built</u>                       | <u>40</u>    |

(3) The tax imposed under this section must be collected annually or under a staggered collection schedule as required by the (~~((secretary))~~) department by rule. (~~((No additional tax shall be imposed under this chapter upon any aircraft upon the transfer of ownership thereof, if the tax imposed by this chapter with respect to such aircraft has already been paid for the year in which transfer of ownership occurs. A violation of this subsection is a misdemeanor punishable as provided under chapter 9A.20 RCW.~~

~~((2)))~~ (4) Persons who are required to register aircraft under chapter 47.68 RCW and who register aircraft in another state or foreign country and avoid the (~~((Washington))~~) aircraft excise tax imposed under this section are liable for (~~((such))~~) the unpaid excise tax. A violation of this subsection is a gross misdemeanor.

(5) The department of revenue may, under chapter 82.32 RCW, assess and collect the unpaid excise tax imposed under (~~((chapter 82.32 RCW))~~)



1 this section, including the penalties and interest provided in chapter  
2 82.32 RCW.

3 ~~((+3+))~~ (6) Except as provided under subsection(~~(s-(1)-and-(2))~~)  
4 (4) of this section, a violation of this chapter is a misdemeanor  
5 punishable as provided in chapter 9A.20 RCW.

6 NEW SECTION. Sec. 903. A new section is added to chapter 82.48  
7 RCW to read as follows:

8 (1)(a) Except as otherwise provided in this section, taxable value  
9 is based on the most recent purchase price of the aircraft, depreciated  
10 according to the year of the most recent purchase of the aircraft. For  
11 purposes of this subsection, "purchase price" means the consideration,  
12 whether money, credit, rights, or other property expressed in terms of  
13 money paid or given or contracted to be paid or given by the purchaser  
14 to the seller for the aircraft.

15 (b) For aircraft for which the most recent purchase price was not  
16 indicative of the fair market value of the aircraft at the time of  
17 purchase, the department may appraise the aircraft. If the department  
18 appraises the aircraft, the taxable value is based on the department's  
19 appraisal of fair market value of the aircraft at the time of the most  
20 recent purchase, depreciated according to the year of the most recent  
21 purchase of the aircraft.

22 (c) For aircraft acquired other than by purchase, including  
23 aircraft manufactured, constructed, or assembled by the owner, the  
24 department must appraise the aircraft before registration. In such  
25 cases, the taxable value is the fair market value at the time of the  
26 department's appraisal. For subsequent years, taxable value is based  
27 on the department's appraisal of fair market value of the aircraft,  
28 depreciated according to the year that the owner acquired the aircraft  
29 or, in the case of aircraft manufactured, constructed, or assembled by  
30 the owner, the year that the aircraft became operational.

31 (2)(a) An appraisal conducted by the department:

32 (i) Need not include a physical inspection of the aircraft; and

33 (ii) May be based on any guidebook, report, or compendium of  
34 recognized standing in the aviation industry and information provided  
35 to the department by the owner of the aircraft.

36 (b) Any aircraft owner disputing the department's appraised value

under this section may petition for a conference with the department as provided under RCW 82.32.160 or for reduction of the tax due as provided under RCW 82.32.170.

(3)(a) The department must prepare a depreciation schedule for use in the determination of the taxable value for the purposes of this chapter. The schedule must be based upon information available to the department pertaining to the current fair market value of aircraft.

(b) The department must recommend a depreciation schedule to the fiscal committees of the senate and house of representatives by December 31, 2010, for enactment in law during the 2011 legislative session for use in the determination of taxable value for taxes due under this chapter during calendar year 2012 and subsequent calendar years.

(4) The department may adopt any rules necessary to implement this section, including any rules necessary to provide a reasonable method or methods to determine the fair market value of an aircraft.

(5) For purposes of this section, "department" means the department of revenue.

**Sec. 904.** RCW 82.48.030 and 1983 2nd ex.s. c 3 s 22 are each amended to read as follows:

(1) ~~((The amount of the tax imposed by this chapter for each calendar year shall be as follows:~~

| Type of aircraft                  | Registration fee |
|-----------------------------------|------------------|
| Single engine fixed wing          | \$ 50            |
| Small multi-engine fixed wing     | 65               |
| Large multi-engine fixed wing     | 80               |
| Turboprop multi-engine fixed wing | 100              |
| Turbojet multi-engine fixed wing  | 125              |
| Helicopter                        | 75               |
| Sailplane                         | 20               |
| Lighter than air                  | 20               |
| Home built                        | 20               |

~~(2))~~ The amount of tax imposed under ~~((subsection (1) of this section))~~ RCW 82.48.020 for each calendar year ~~((shall))~~ must be

1 divided into twelve parts corresponding to the months of the calendar  
2 year, and the excise tax upon an aircraft registered for the first time  
3 in this state after the last day of any month (~~((shall))~~) is only (~~((be))~~)  
4 levied for the remaining months of the calendar year including the  
5 month in which the aircraft is being registered(~~((:—PROVIDED, That))~~).  
6 However, the minimum amount payable (~~((shall-be))~~) is three dollars.

7 (2) For the purposes of this chapter, an aircraft (~~((shall-be))~~) is  
8 deemed registered for the first time in this state when such aircraft  
9 was not (~~((previously))~~) required to be registered by this state for the  
10 year immediately preceding the year in which application for  
11 registration is made and was not so registered.

12 **Sec. 905.** RCW 82.48.070 and 1987 c 220 s 7 are each amended to  
13 read as follows:

14 The (~~((secretary-shall))~~) department must give a receipt to each  
15 person paying (~~((the))~~) excise tax under this chapter.

16 **Sec. 906.** RCW 82.48.080 and 1995 c 170 s 2 are each amended to  
17 read as follows:

18 The (~~((secretary-shall))~~) department must regularly pay to the state  
19 treasurer the excise taxes collected under this chapter(~~((, which shall~~  
20 ~~be credited by the state treasurer as follows: Ninety percent to the~~  
21 ~~general fund and ten percent to the aeronautics account in the~~  
22 ~~transportation fund for administrative expenses))~~ for deposit into the  
23 general fund.

24 **Sec. 907.** RCW 82.48.110 and 1967 ex.s. c 9 s 6 are each amended to  
25 read as follows:

26 (~~((The first tax to be collected under this chapter shall be for the~~  
27 ~~calendar year 1968.))~~) (1) No aircraft with respect to which the excise  
28 tax imposed by this chapter is payable (~~((shall))~~) may be listed and  
29 assessed for ad valorem taxation so long as this chapter remains in  
30 effect(~~((, and any such assessment heretofore made except under~~  
31 ~~authority of section 13, chapter 49, Laws of 1949 and section~~  
32 ~~82.48.110, chapter 15, Laws of 1961 is hereby directed to be canceled:~~  
33 ~~PROVIDED, That))~~).

34 (2) Any aircraft, whether or not subject to the provisions of this  
35 chapter, with respect to which the excise tax imposed by this chapter

1 will not be paid or has not been paid for any year (~~((shall))~~) must be  
2 listed and assessed for ad valorem taxation in that year, and the ad  
3 valorem tax liability resulting from such listing and assessment  
4 (~~((shall))~~) must be collected in the same manner as though this chapter  
5 had not been passed(~~((:—PROVIDED FURTHER, That this chapter shall not~~  
6 ~~be—construed—to—affect—any—ad—valorem—tax—based—upon—assessed~~  
7 ~~valuations made in 1948 and/or any preceding year for taxes payable in~~  
8 ~~1949 or any preceding year, which ad valorem tax liability tax for any~~  
9 ~~such years shall remain payable and collectible in the same manner as~~  
10 ~~though this chapter had not been passed))~~)).

11 **Sec. 908.** RCW 47.68.230 and 2005 c 341 s 1 are each amended to  
12 read as follows:

13 (1) It (~~((shall be))~~) is unlawful for any person to operate or cause  
14 or authorize to be operated any civil aircraft within this state unless  
15 such aircraft has an appropriate effective certificate, permit, or  
16 license issued by the United States, if such certificate, permit, or  
17 license is required by the United States, and a current registration  
18 certificate issued by the (~~((secretary of transportation))~~) department of  
19 licensing, if registration of the aircraft with the department of  
20 (~~((transportation))~~) licensing is required by this chapter. It (~~((shall~~  
21 ~~be))~~) is unlawful for any person to engage in aeronautics as an airman  
22 or airwoman in the state unless the person has an appropriate effective  
23 airman or airwoman certificate, permit, rating, or license issued by  
24 the United States authorizing him or her to engage in the particular  
25 class of aeronautics in which he or she is engaged, if such  
26 certificate, permit, rating, or license is required by the United  
27 States.

28 (2) Where a certificate, permit, rating, or license is required for  
29 an airman or airwoman by the United States, it (~~((shall))~~) must be kept  
30 in his or her personal possession when he or she is operating within  
31 the state. Where a certificate, permit, or license is required by the  
32 United States or by this chapter for an aircraft, it (~~((shall))~~) must be  
33 carried in the aircraft at all times while the aircraft is operating in  
34 the state and (~~((shall))~~) must be conspicuously posted in the aircraft  
35 where it may be readily seen by passengers or inspectors. Such  
36 certificates (~~((shall))~~) must be presented for inspection upon the demand  
37 of any peace officer, or any other officer of the state or of a

1 municipality or member, official, or employee of the department of  
2 transportation authorized pursuant to this chapter to enforce the  
3 aeronautics laws, or any official, manager, or person in charge of any  
4 airport, or upon the reasonable request of any person.

5 **Sec. 909.** RCW 82.48.090 and 1992 c 154 s 2 are each amended to  
6 read as follows:

7 In case a claim is made by any person that the person has paid an  
8 erroneously excessive amount of excise tax under this chapter, the  
9 person may apply to the department of (~~transportation~~) licensing for  
10 a refund of the claimed excessive amount together with interest at the  
11 rate specified in RCW 82.32.060. The department of (~~transportation~~  
12 ~~shall~~) licensing must review such application, and if it determines  
13 that an excess amount of tax has actually been paid by the taxpayer,  
14 such excess amount and interest at the rate specified in RCW 82.32.060  
15 (~~shall~~) must be refunded to the taxpayer by means of a voucher  
16 approved by the department of (~~transportation~~) licensing and by the  
17 issuance of a state warrant drawn upon and payable from such funds as  
18 the legislature may provide for that purpose. No refund (~~shall~~) may  
19 be allowed, however, unless application for the refund is filed with  
20 the department of (~~transportation~~) licensing within ninety days after  
21 the claimed excessive excise tax was paid and the amount of the  
22 overpayment exceeds five dollars.

## 23 **PART X**

### 24 **Use Tax on Motor Vehicles and Trailers Used in Interstate Commerce**

25 **Sec. 1001.** RCW 82.12.0254 and 2009 c 503 s 2 are each amended to  
26 read as follows:

27 (1) The provisions of this chapter do not apply in respect to the  
28 use of:

29 (a) Any airplane used primarily in (i) conducting interstate or  
30 foreign commerce or (ii) providing intrastate air transportation by a  
31 commuter air carrier as defined in RCW 82.08.0262;

32 (b) Any locomotive, railroad car, or watercraft used primarily in  
33 conducting interstate or foreign commerce by transporting therein or  
34 therewith property and persons for hire or used primarily in commercial

1 deep sea fishing operations outside the territorial waters of the  
2 state;

3 (c) Tangible personal property that becomes a component part of any  
4 such airplane, locomotive, railroad car, or watercraft in the course of  
5 repairing, cleaning, altering, or improving the same; and

6 (d) Labor and services rendered in respect to such repairing,  
7 cleaning, altering, or improving.

8 (2) The provisions of this chapter do not apply in respect to the  
9 use by a nonresident of this state of any motor vehicle or trailer used  
10 exclusively in transporting persons or property across the boundaries  
11 of this state and in intrastate operations incidental thereto when such  
12 motor vehicle or trailer is registered and licensed in a foreign state  
13 and in respect to the use by a nonresident of this state of any motor  
14 vehicle or trailer so registered and licensed and used within this  
15 state for a period not exceeding fifteen consecutive days under such  
16 rules as the department must adopt. However, under circumstances  
17 determined to be justifiable by the department a second fifteen day  
18 period may be authorized consecutive with the first fifteen day period;  
19 and for the purposes of this exemption the term "nonresident" as used  
20 herein includes a user who has one or more places of business in this  
21 state as well as in one or more other states, but the exemption for  
22 nonresidents applies only to those vehicles which are most frequently  
23 dispatched, garaged, serviced, maintained, and operated from the user's  
24 place of business in another state.

25 (3) The provisions of this chapter do not apply in respect to the  
26 use of:

27 (a) Any motor vehicle or trailer, owned by the holder of a carrier  
28 permit issued by the interstate commerce commission or its successor  
29 agency (~~((of any motor vehicle or trailer whether owned by))~~) or leased  
30 with or without driver to the permit holder and used (~~((in substantial~~  
31 ~~part))~~) in the normal and ordinary course of the user's business  
32 primarily for transporting therein persons or property for hire across  
33 the boundaries of this state; (~~((and in respect to the use of))~~)

34 (b) Any motor vehicle or trailer while being operated under the  
35 authority of a one-transit permit issued by the director of licensing  
36 pursuant to RCW 46.16.160 and moving upon the highways from the point  
37 of delivery in this state to a point outside this state; (~~((and in~~  
38 ~~respect to the use of))~~)

(c) Tangible personal property ~~((which))~~ that becomes a component part of any motor vehicle or trailer ~~((used by the holder of a carrier permit issued by the interstate commerce commission or its successor agency — authorizing — transportation — by — motor — vehicle — across — the boundaries of this state whether such motor vehicle or trailer is owned by or leased with or without driver to the permit holder))~~ that is exempt under (a) of this subsection, in the course of repairing, cleaning, altering, or improving the same; ~~((also the use of))~~ and

(d) Labor and services rendered in respect to such repairing, cleaning, altering, or improving any motor vehicle or trailer that is exempt under (a) of this subsection.

PART XI

Foreclosure Exemption

**Sec. 1101.** RCW 82.45.010 and 2010 c ... s 206 (section 206 of this act) are each amended to read as follows:

(1) As used in this chapter, the term "sale" has its ordinary meaning and includes any conveyance, grant, assignment, quitclaim, or transfer of the ownership of or title to real property, including standing timber, or any estate or interest therein for a valuable consideration, and any contract for such conveyance, grant, assignment, quitclaim, or transfer, and any lease with an option to purchase real property, including standing timber, or any estate or interest therein or other contract under which possession of the property is given to the purchaser, or any other person at the purchaser's direction, and title to the property is retained by the vendor as security for the payment of the purchase price. The term also includes the grant, assignment, quitclaim, sale, or transfer of improvements constructed upon leased land.

(2)(a) The term "sale" also includes the transfer or acquisition within any twelve-month period of a controlling interest in any entity with an interest in real property located in this state for a valuable consideration.

(b) For the sole purpose of determining whether, pursuant to the exercise of an option, a controlling interest was transferred or acquired within a twelve-month period, the date that the option agreement was executed is the date on which the transfer or acquisition

1 of the controlling interest is deemed to occur. For all other purposes  
2 under this chapter, the date upon which the option is exercised is the  
3 date of the transfer or acquisition of the controlling interest.

4 (c) For purposes of this subsection, all acquisitions of persons  
5 acting in concert must be aggregated for purposes of determining  
6 whether a transfer or acquisition of a controlling interest has taken  
7 place. The department must adopt standards by rule to determine when  
8 persons are acting in concert. In adopting a rule for this purpose,  
9 the department must consider the following:

10 (i) Persons must be treated as acting in concert when they have a  
11 relationship with each other such that one person influences or  
12 controls the actions of another through common ownership; and

13 (ii) When persons are not commonly owned or controlled, they must  
14 be treated as acting in concert only when the unity with which the  
15 purchasers have negotiated and will consummate the transfer of  
16 ownership interests supports a finding that they are acting as a single  
17 entity. If the acquisitions are completely independent, with each  
18 purchaser buying without regard to the identity of the other  
19 purchasers, then the acquisitions are considered separate acquisitions.

20 (3) The term "sale" does not include:

21 (a) A transfer by gift, devise, or inheritance.

22 (b) A transfer of any leasehold interest other than of the type  
23 mentioned above.

24 (c) A cancellation or forfeiture of a vendee's interest in a  
25 contract for the sale of real property, whether or not such contract  
26 contains a forfeiture clause, or deed in lieu of foreclosure of a  
27 mortgage.

28 (d) The partition of property by tenants in common by agreement or  
29 as the result of a court decree.

30 (e) The assignment of property or interest in property from one  
31 spouse or one domestic partner to the other spouse or other domestic  
32 partner in accordance with the terms of a decree of dissolution of  
33 marriage or state registered domestic partnership or in fulfillment of  
34 a property settlement agreement.

35 (f) The assignment or other transfer of a vendor's interest in a  
36 contract for the sale of real property, even though accompanied by a  
37 conveyance of the vendor's interest in the real property involved.



1 (g) Transfers by appropriation or decree in condemnation  
2 proceedings brought by the United States, the state or any political  
3 subdivision thereof, or a municipal corporation.

4 (h) A mortgage or other transfer of an interest in real property  
5 merely to secure a debt, or the assignment thereof.

6 (i) ~~((Any))~~ A transfer or conveyance made (i) to the beneficiary of  
7 a deed of trust pursuant to a trustee's sale in the nonjudicial  
8 foreclosure of a deed of trust ~~((or))~~; (ii) to the mortgagee,  
9 beneficiary of the deed of trust, or lienholder pursuant to an order of  
10 sale by the court in the judicial foreclosure of any mortgage, deed of  
11 trust, or lien ~~((foreclosure proceeding or upon execution of a~~  
12 ~~judgment, or))~~; (iii) to the mortgagee by the mortgagor or to the  
13 beneficiary of a deed of trust by the grantor pursuant to deed in lieu  
14 of foreclosure to satisfy a mortgage or deed of trust; or (iv) to the  
15 judgment creditor pursuant to a writ of execution to enforce a  
16 judgment.

17 (j) A conveyance to the federal housing administration or veterans  
18 administration by an authorized mortgagee made pursuant to a contract  
19 of insurance or guaranty with the federal housing administration or  
20 veterans administration.

21 (k) A transfer in compliance with the terms of any lease or  
22 contract upon which the tax as imposed by this chapter has been paid or  
23 where the lease or contract was entered into prior to the date this tax  
24 was first imposed.

25 (l) The sale of any grave or lot in an established cemetery.

26 (m) A sale by the United States, this state or any political  
27 subdivision thereof, or a municipal corporation of this state.

28 (n) A sale to a regional transit authority or public corporation  
29 under RCW 81.112.320 under a sale/leaseback agreement under RCW  
30 81.112.300.

31 (o) A transfer of real property, however effected, if it consists  
32 of a mere change in identity or form of ownership of an entity where  
33 there is no change in the beneficial ownership. These include  
34 transfers to a corporation or partnership which is wholly owned by the  
35 transferor and/or the transferor's spouse or domestic partner or  
36 children of the transferor or the transferor's spouse or domestic  
37 partner. However, if thereafter such transferee corporation or  
38 partnership voluntarily transfers such real property, or such

1 transferor, spouse or domestic partner, or children of the transferor  
2 or the transferor's spouse or domestic partner voluntarily transfer  
3 stock in the transferee corporation or interest in the transferee  
4 partnership capital, as the case may be, to other than (i) the  
5 transferor and/or the transferor's spouse or domestic partner or  
6 children of the transferor or the transferor's spouse or domestic  
7 partner, (ii) a trust having the transferor and/or the transferor's  
8 spouse or domestic partner or children of the transferor or the  
9 transferor's spouse or domestic partner as the only beneficiaries at  
10 the time of the transfer to the trust, or (iii) a corporation or  
11 partnership wholly owned by the original transferor and/or the  
12 transferor's spouse or domestic partner or children of the transferor  
13 or the transferor's spouse or domestic partner, within three years of  
14 the original transfer to which this exemption applies, and the tax on  
15 the subsequent transfer has not been paid within sixty days of becoming  
16 due, excise taxes become due and payable on the original transfer as  
17 otherwise provided by law.

18 (p)(i) A transfer that for federal income tax purposes does not  
19 involve the recognition of gain or loss for entity formation,  
20 liquidation or dissolution, and reorganization, including but not  
21 limited to nonrecognition of gain or loss because of application of 26  
22 U.S.C. Sec. 332, 337, 351, 368(a)(1), 721, or 731 of the internal  
23 revenue code of 1986, as amended.

24 (ii) However, the transfer described in (p)(i) of this subsection  
25 cannot be preceded or followed within a twelve-month period by another  
26 transfer or series of transfers, that, when combined with the otherwise  
27 exempt transfer or transfers described in (p)(i) of this subsection,  
28 results in the transfer of a controlling interest in the entity for  
29 valuable consideration, and in which one or more persons previously  
30 holding a controlling interest in the entity receive cash or property  
31 in exchange for any interest the person or persons acting in concert  
32 hold in the entity. This subsection (3)(p)(ii) does not apply to that  
33 part of the transfer involving property received that is the real  
34 property interest that the person or persons originally contributed to  
35 the entity or when one or more persons who did not contribute real  
36 property or belong to the entity at a time when real property was  
37 purchased receive cash or personal property in exchange for that person

1 or persons' interest in the entity. The real estate excise tax under  
2 this subsection (3)(p)(ii) is imposed upon the person or persons who  
3 previously held a controlling interest in the entity.

4 (q) A qualified sale of a manufactured/mobile home community, as  
5 defined in RCW 59.20.030, that takes place on or after June 12, 2008,  
6 but before December 31, 2018.

7 **Sec. 1102.** RCW 82.45.080 and 1980 c 154 s 3 are each amended to  
8 read as follows:

9 (1) The tax levied under this chapter ((shall-be)) is the  
10 obligation of the seller and the department ((of-revenue)) may, at the  
11 department's option, enforce the obligation through an action of debt  
12 against the seller or the department may proceed in the manner  
13 prescribed for the foreclosure of mortgages ((and-resort-to)). The  
14 department's use of one course of enforcement ((shall)) is not ((be))  
15 an election not to pursue the other.

16 (2) For purposes of this section and notwithstanding any other  
17 provisions of law, in a sale involving a judicial or nonjudicial  
18 foreclosure or enforcement of a judgment, the seller is the:

19 (a) Beneficiary of a deed of trust in any transfer or conveyance to  
20 any party other than such beneficiary pursuant to a trustee's sale in  
21 the nonjudicial foreclosure of the deed of trust;

22 (b) Mortgagee, beneficiary of a deed of trust, or lienholder in any  
23 transfer or conveyance to any party other than such mortgagee,  
24 beneficiary, or lienholder pursuant to an order of sale by the court in  
25 the judicial foreclosure of any mortgage, deed of trust, or lien; and

26 (c) Judgment creditor in any transfer or conveyance to any party  
27 other than such creditor pursuant to a writ of execution to enforce a  
28 judgment.

## 29 **PART XII**

### 30 **Tax Debts**

31 **Sec. 1201.** RCW 82.32.145 and 1995 c 318 s 2 are each amended to  
32 read as follows:

33 ~~(1) ((Upon termination, dissolution, or abandonment of a corporate~~  
34 ~~or limited liability company business, any officer, member, manager, or~~  
35 ~~other person having control or supervision of retail sales tax funds~~

1 collected and held in trust under RCW 82.08.050, or who is charged with  
2 the responsibility for the filing of returns or the payment of retail  
3 sales tax funds collected and held in trust under RCW 82.08.050, shall  
4 be personally liable for any unpaid taxes and interest and penalties on  
5 those taxes, if such officer or other person wilfully fails to pay or  
6 to cause to be paid any taxes due from the corporation pursuant to  
7 chapter 82.08 RCW. For the purposes of this section, any retail sales  
8 taxes that have been paid but not collected shall be deductible from  
9 the retail sales taxes collected but not paid.

10 For purposes of this subsection "wilfully fails to pay or to cause  
11 to be paid" means that the failure was the result of an intentional,  
12 conscious, and voluntary course of action.

13 (2) ~~The officer, member or manager, or other person shall be liable~~  
14 ~~only for taxes collected which))~~ Whenever the department has issued a  
15 warrant under RCW 82.32.210 for the collection of unpaid retail sales  
16 tax funds collected and held in trust under RCW 82.08.050 from a  
17 limited liability business entity and that business entity has been  
18 terminated, dissolved, or abandoned, or is insolvent, the department  
19 may pursue collection of the entity's unpaid sales taxes, including  
20 penalties and interest on those taxes, against any or all of the  
21 responsible individuals. For purposes of this subsection, "insolvent"  
22 means the condition that results when the sum of the entity's debts  
23 exceeds the fair market value of its assets. The department may  
24 presume that an entity is insolvent if the entity refuses to disclose  
25 to the department the nature of its assets and liabilities.

26 (2) Personal liability under this section may be imposed for state  
27 and local sales taxes.

28 (3)(a) For a responsible individual who is the current or a former  
29 chief executive or chief financial officer, liability under this  
30 section applies regardless of fault or whether the individual was or  
31 should have been aware of the unpaid sales tax liability of the limited  
32 liability business entity.

33 (b) For any other responsible individual, liability under this  
34 section applies only if he or she willfully fails to pay or to cause to  
35 be paid to the department the sales taxes due from the limited  
36 liability business entity.

37 (4)(a) Except as provided in this subsection (4)(a), a responsible  
38 individual who is the current or a former chief executive or chief

1 financial officer is liable under this section only for sales tax  
2 liability accrued during the period that he or she was the chief  
3 executive or chief financial officer. However, if the responsible  
4 individual had the responsibility or duty to remit payment of the  
5 limited liability business entity's sales taxes to the department  
6 during any period of time that the person was not the chief executive  
7 or chief financial officer, that individual is also liable for sales  
8 tax liability that became due during the period that he or she had the  
9 duty to remit payment of the limited liability business entity's taxes  
10 to the department but was not the chief executive or chief financial  
11 officer.

12 (b) All other responsible individuals are liable under this section  
13 only for sales tax liability that became due during the period he or  
14 she had the ((control, supervision,)) responsibility((,)) or duty to  
15 ((act for the corporation described in subsection (1) of this section,  
16 plus interest and penalties on those taxes.

17 (+3)) remit payment of the limited liability business entity's  
18 taxes to the department.

19 (5) Persons ((liable under)) described in subsection ((+1)) (3)(b)  
20 of this section are exempt from liability under this section in  
21 situations where nonpayment of the ((retail sales tax funds held in  
22 trust)) limited liability business entity's sales taxes is due to  
23 reasons beyond their control as determined by the department by rule.

24 ((+4)) (6) Any person having been issued a notice of assessment  
25 under this section is entitled to the appeal procedures under RCW  
26 82.32.160, 82.32.170, 82.32.180, 82.32.190, and 82.32.200.

27 ((+5) This section applies only in situations where the department  
28 has determined that there is no reasonable means of collecting the  
29 retail sales tax funds held in trust directly from the corporation.

30 (+6)) (7) This section does not relieve the ((corporation or))  
31 limited liability ((company)) business entity of ((other tax  
32 liabilities)) its sales tax liability or otherwise impair other tax  
33 collection remedies afforded by law.

34 ((+7)) (8) Collection authority and procedures prescribed in this  
35 chapter apply to collections under this section.

36 (9) The definitions in this subsection apply throughout this  
37 section unless the context clearly requires otherwise.

1       (a) "Chief executive" means: The president of a corporation; or  
2 for other entities or organizations other than corporations or if the  
3 corporation does not have a president as one of its officers, the  
4 highest ranking executive manager or administrator in charge of the  
5 management of the company or organization.

6       (b) "Chief financial officer" means: The treasurer of a  
7 corporation; or for entities or organizations other than corporations  
8 or if a corporation does not have a treasurer as one of its officers,  
9 the highest senior manager who is responsible for overseeing the  
10 financial activities of the entire company or organization.

11       (c) "Limited liability business entity" means a type of business  
12 entity that generally shields its owners from personal liability for  
13 the debts, obligations, and liabilities of the entity, or a business  
14 entity that is managed or owned in whole or in part by an entity that  
15 generally shields its owners from personal liability for the debts,  
16 obligations, and liabilities of the entity. Limited liability business  
17 entities include corporations, limited liability companies, limited  
18 liability partnerships, trusts, general partnerships and joint ventures  
19 in which one or more of the partners or parties are also limited  
20 liability business entities, and limited partnerships in which one or  
21 more of the general partners are also limited liability business  
22 entities.

23       (d) "Manager" has the same meaning as in RCW 25.15.005.

24       (e) "Member" has the same meaning as in RCW 25.15.005, except that  
25 the term only includes members of member-managed limited liability  
26 companies.

27       (f) "Officer" means any officer or assistant officer of a  
28 corporation, including the president, vice-president, secretary, and  
29 treasurer.

30       (g)(i) "Responsible individual" includes any current or former  
31 officer, manager, member, partner, or trustee of a limited liability  
32 business entity with an unpaid tax warrant issued by the department.

33       (ii) "Responsible individual" also includes any current or former  
34 employee or other individual, but only if the individual had the  
35 responsibility or duty to remit payment of the limited liability  
36 business entity's unpaid sales tax liability reflected in a tax warrant  
37 issued by the department.

(iii) Whenever any taxpayer has one or more limited liability business entities as a member, manager, or partner, "responsible individual" also includes any current and former officers, members, or managers of the limited liability business entity or entities or of any other limited liability business entity involved directly in the management of the taxpayer. For purposes of this subsection (9)(g)(iii), "taxpayer" means a limited liability business entity with an unpaid tax warrant issued against it by the department.

(h) "Willfully fails to pay or to cause to be paid" means that the failure was the result of an intentional, conscious, and voluntary course of action.

## PART XIII

## Repealing the Business and Occupation Tax Credit for New Employment for International Service Activities

NEW SECTION. **Sec. 1301.** RCW 82.04.44525 (Credit--New employment for international service activities in eligible areas--Designation of census tracts for eligibility--Records--Tax due upon ineligibility--Interest assessment--Information from employment security department) and 2009 c 535 s 1104, 2008 c 81 s 9, & 1998 c 313 s 2 are each repealed.

## PART XIV

## Repealing the Sales and Use Tax Exemptions for Candy and Bottled Water

NEW\_SECTION. **Sec. 1401.** (1) In order to preserve funding to protect Washington state's natural resources, it is the legislature's intent to use revenue generated from assessing a sales tax on bottled water on natural resource and environmental protection activities.

(2) It is the legislature's intent to use revenue generated from assessing a sales tax on candy and gum to support public health services including children's dental services.

**Sec. 1402.** RCW 82.08.0293 and 2009 c 483 s 2 are each amended to read as follows:

(1) The tax levied by RCW 82.08.020 (~~(shall)~~) does not apply to

1 sales of food and food ingredients. "Food and food ingredients" means  
2 substances, whether in liquid, concentrated, solid, frozen, dried, or  
3 dehydrated form, that are sold for ingestion or chewing by humans and  
4 are consumed for their taste or nutritional value. "Food and food  
5 ingredients" does not include:

6 (a) "Alcoholic beverages," which means beverages that are suitable  
7 for human consumption and contain one-half of one percent or more of  
8 alcohol by volume; and

9 (b) "Tobacco," which means cigarettes, cigars, chewing or pipe  
10 tobacco, or any other item that contains tobacco.

11 (2) The exemption of "food and food ingredients" provided for in  
12 subsection (1) of this section (~~shall~~) does not apply to prepared  
13 food, soft drinks, candy, bottled water, or dietary supplements.

14 (a) "Prepared food" means:

15 (i) Food sold in a heated state or heated by the seller;

16 (ii) Food sold with eating utensils provided by the seller,  
17 including plates, knives, forks, spoons, glasses, cups, napkins, or  
18 straws. A plate does not include a container or packaging used to  
19 transport the food; or

20 (iii) Two or more food ingredients mixed or combined by the seller  
21 for sale as a single item, except:

22 (A) Food that is only cut, repackaged, or pasteurized by the  
23 seller; or

24 (B) Raw eggs, fish, meat, poultry, and foods containing these raw  
25 animal foods requiring cooking by the consumer as recommended by the  
26 federal food and drug administration in chapter 3, part 401.11 of The  
27 Food Code, published by the food and drug administration, as amended or  
28 renumbered as of January 1, 2003, so as to prevent foodborne illness.

29 (b) "Prepared food" does not include the following food or food  
30 ingredients, if the food or food ingredients are sold without eating  
31 utensils provided by the seller:

32 (i) Food sold by a seller whose proper primary North American  
33 industry classification system (NAICS) classification is manufacturing  
34 in sector 311, except subsector 3118 (bakeries), as provided in the  
35 "North American industry classification system--United States, 2002";

36 (ii) Food sold in an unheated state by weight or volume as a single  
37 item; or



1 (iii) Bakery items. The term "bakery items" includes bread, rolls,  
2 buns, biscuits, bagels, croissants, pastries, donuts, Danish, cakes,  
3 tortes, pies, tarts, muffins, bars, cookies, or tortillas.

4 (c) "Soft drinks" means nonalcoholic beverages that contain natural  
5 or artificial sweeteners. Soft drinks do not include beverages that  
6 contain: Milk or milk products; soy, rice, or similar milk  
7 substitutes; or greater than fifty percent of vegetable or fruit juice  
8 by volume.

9 (d) "Dietary supplement" means any product, other than tobacco,  
10 intended to supplement the diet that:

11 (i) Contains one or more of the following dietary ingredients:

12 (A) A vitamin;

13 (B) A mineral;

14 (C) An herb or other botanical;

15 (D) An amino acid;

16 (E) A dietary substance for use by humans to supplement the diet by  
17 increasing the total dietary intake; or

18 (F) A concentrate, metabolite, constituent, extract, or combination  
19 of any ingredient described in this subsection;

20 (ii) Is intended for ingestion in tablet, capsule, powder, softgel,  
21 gelcap, or liquid form, or if not intended for ingestion in such form,  
22 is not represented as conventional food and is not represented for use  
23 as a sole item of a meal or of the diet; and

24 (iii) Is required to be labeled as a dietary supplement,  
25 identifiable by the "supplement facts" box found on the label as  
26 required pursuant to 21 C.F.R. Sec. 101.36, as amended or renumbered as  
27 of January 1, 2003.

28 (e) "Candy" means a preparation of sugar, honey, or other natural  
29 or artificial sweeteners in combination with chocolate, fruits, nuts,  
30 or other ingredients or flavorings in the form of bars, drops, or  
31 pieces. "Candy" does not include any preparation containing flour and  
32 does not require refrigeration.

33 (f) "Bottled water" means water that is placed in a sealed  
34 container or package for human consumption or other consumer uses.  
35 Bottled water is calorie free and does not contain sweeteners or other  
36 additives except that it may contain: (i) Antimicrobial agents; (ii)  
37 fluoride; (iii) carbonation; (iv) vitamins, minerals, and electrolytes;  
38 (v) oxygen; (vi) preservatives; and (vii) only those flavors, extracts,

1 or essences derived from a spice or fruit. "Bottled water" includes  
2 water that is delivered to the buyer in a reusable container that is  
3 not sold with the water.

4 (3) Notwithstanding anything in this section to the contrary, the  
5 exemption of "food and food ingredients" provided in this section shall  
6 apply to food and food ingredients that are furnished, prepared, or  
7 served as meals:

8 (a) Under a state administered nutrition program for the aged as  
9 provided for in the older Americans act (P.L. 95-478 Title III) and RCW  
10 74.38.040(6);

11 (b) That are provided to senior citizens, individuals with  
12 disabilities, or low-income persons by a not-for-profit organization  
13 organized under chapter 24.03 or 24.12 RCW; or

14 (c) That are provided to residents, sixty-two years of age or  
15 older, of a qualified low-income senior housing facility by the lessor  
16 or operator of the facility. The sale of a meal that is billed to both  
17 spouses of a marital community or both domestic partners of a domestic  
18 partnership meets the age requirement in this subsection (3)(c) if at  
19 least one of the spouses or domestic partners is at least sixty-two  
20 years of age. For purposes of this subsection, "qualified low-income  
21 senior housing facility" means a facility:

22 (i) That meets the definition of a qualified low-income housing  
23 project under ((Title)) 26 U.S.C. Sec. 42 of the federal internal  
24 revenue code, as existing on August 1, 2009;

25 (ii) That has been partially funded under ((Title)) 42 U.S.C. Sec.  
26 1485 ((of the federal internal revenue code)); and

27 (iii) For which the lessor or operator has at any time been  
28 entitled to claim a federal income tax credit under ((Title)) 26 U.S.C.  
29 Sec. 42 of the federal internal revenue code.

30 (4)(a) Subsection (1) of this section notwithstanding, the retail  
31 sale of food and food ingredients is subject to sales tax under RCW  
32 82.08.020 if the food and food ingredients are sold through a vending  
33 machine, and in this case the selling price for purposes of RCW  
34 82.08.020 is fifty-seven percent of the gross receipts.

35 (b) This subsection (4) does not apply to hot prepared food and  
36 food ingredients, other than food and food ingredients which are heated  
37 after they have been dispensed from the vending machine.

1 (c) For tax collected under this subsection (4), the requirements  
2 that the tax be collected from the buyer and that the amount of tax be  
3 stated as a separate item are waived.

4 **Sec. 1403.** RCW 82.12.0293 and 2009 c 483 s 4 are each amended to  
5 read as follows:

6 (1) The provisions of this chapter (~~((shall))~~) do not apply in  
7 respect to the use of food and food ingredients for human consumption.  
8 "Food and food ingredients" has the same meaning as in RCW 82.08.0293.

9 (2) The exemption of "food and food ingredients" provided for in  
10 subsection (1) of this section (~~((shall))~~) does not apply to prepared  
11 food, soft drinks, candy, bottled water, or dietary supplements.  
12 "Prepared food," "soft drinks," (~~((and))~~) "dietary supplements," "candy,"  
13 and "bottled water" have the same meanings as in RCW 82.08.0293.

14 (3) Notwithstanding anything in this section to the contrary, the  
15 exemption of "food and food ingredients" provided in this section  
16 (~~((shall))~~) apply to food and food ingredients which are furnished,  
17 prepared, or served as meals:

18 (a) Under a state administered nutrition program for the aged as  
19 provided for in the older Americans act (P.L. 95-478 Title III) and RCW  
20 74.38.040(6);

21 (b) Which are provided to senior citizens, individuals with  
22 disabilities, or low-income persons by a not-for-profit organization  
23 organized under chapter 24.03 or 24.12 RCW; or

24 (c) That are provided to residents, sixty-two years of age or  
25 older, of a qualified low-income senior housing facility by the lessor  
26 or operator of the facility. The sale of a meal that is billed to both  
27 spouses of a marital community or both domestic partners of a domestic  
28 partnership meets the age requirement in this subsection (3)(c) if at  
29 least one of the spouses or domestic partners is at least sixty-two  
30 years of age. For purposes of this subsection, "qualified low-income  
31 senior housing facility" has the same meaning as in RCW 82.08.0293.

32 NEW SECTION. **Sec. 1404.** A new section is added to chapter 82.08  
33 RCW to read as follows:

34 (1) The tax levied by RCW 82.08.020 does not apply to sales of  
35 bottled water for human use dispensed or to be dispensed to patients,

1 pursuant to a prescription for use in the cure, mitigation, treatment,  
2 or prevention of disease or medical condition.

3 (2) The definitions in this subsection apply to this section.

4 (a) "Bottled water" has the same meaning as provided in RCW  
5 82.08.0293.

6 (b) "Prescription" means an order, formula, or recipe issued in any  
7 form of oral, written, electronic, or other means of transmission by a  
8 duly licensed practitioner authorized by the laws of this state to  
9 prescribe.

10 NEW SECTION. Sec. 1405. A new section is added to chapter 82.12  
11 RCW to read as follows:

12 The provisions of this chapter do not apply in respect to the use  
13 of bottled water for human use dispensed or to be dispensed to  
14 patients, pursuant to a prescription for use in the cure, mitigation,  
15 treatment, or prevention of disease or medical condition. The  
16 definitions in section 1404 of this act apply to this section.

17 NEW SECTION. Sec. 1406. A new section is added to chapter 82.08  
18 RCW to read as follows:

19 (1) The tax levied by RCW 82.08.020 does not apply to sales of  
20 bottled water for human use to persons who do not otherwise have a  
21 readily available source of potable water and who provide the seller  
22 with an exemption certificate in a form and manner prescribed by the  
23 department. The seller must retain a copy of the certificate for the  
24 seller's files.

25 (2) The department may waive the requirement for an exemption  
26 certificate in the event of disaster or similar circumstance.

27 NEW SECTION. Sec. 1407. A new section is added to chapter 82.12  
28 RCW to read as follows:

29 The provisions of this chapter do not apply in respect to the use  
30 of bottled water for human use by persons who do not otherwise have a  
31 readily available source of potable water.

32 NEW SECTION. Sec. 1408. (1) The legislature finds that the  
33 definition of candy under the national streamlined sales and use tax

1 agreement is ambiguous and also excludes certain items through its  
2 definition that are unquestionably considered candy, such as Kit Kat,  
3 Twix, Reese Sticks, and licorice.

4 (2) It is the intent of the legislature that the department of  
5 revenue develop an alternative definition of candy for the purpose  
6 addressing the issues specified under subsection (1) of this section  
7 and petitioning the streamlined sales and use tax agreement governing  
8 board for a change in the definition of candy.

9 (3) To achieve the purpose described in subsection (2) of this  
10 section, the department of revenue, through the Washington state  
11 streamlined sales tax project advisory group, shall recommend  
12 modifications to the definition of candy. As part of this process, the  
13 department shall take input from stakeholders in the confectionary  
14 industry.

## 15 **PART XV**

### 16 **Imposing Sales and Use Tax on Cosmetic** 17 **Surgery and Custom Software**

18 NEW SECTION. **Sec. 1501.** (1) In order to preserve funding for  
19 health care services for people with disabilities, it is the  
20 legislature's intent to use revenue generated from assessing a sales  
21 tax on elective cosmetic surgery to support basic health care programs  
22 and assistance for people with disabilities.

23 (2) In order to preserve funding for higher education, it is the  
24 legislature's intent to use revenue generated from assessing a sales  
25 and use tax on custom software to support the state's institutions of  
26 higher education and financial aid programs including the state need  
27 grant.

28 **Sec. 1502.** RCW 82.04.050 and 2009 c 563 s 301 and 2009 c 535 s 301  
29 are each reenacted and amended to read as follows:

30 (1) "Sale at retail" or "retail sale" means every sale of tangible  
31 personal property (including articles produced, fabricated, or  
32 imprinted) to all persons irrespective of the nature of their business  
33 and including, among others, without limiting the scope hereof, persons  
34 who install, repair, clean, alter, improve, construct, or decorate real

1 or personal property of or for consumers other than a sale to a person  
2 who presents a seller's permit or uniform exemption certificate in  
3 conformity with RCW 82.04.470 and who:

4 (a) Purchases for the purpose of resale as tangible personal  
5 property in the regular course of business without intervening use by  
6 such person, but a purchase for the purpose of resale by a regional  
7 transit authority under RCW 81.112.300 is not a sale for resale; or

8 (b) Installs, repairs, cleans, alters, imprints, improves,  
9 constructs, or decorates real or personal property of or for consumers,  
10 if such tangible personal property becomes an ingredient or component  
11 of such real or personal property without intervening use by such  
12 person; or

13 (c) Purchases for the purpose of consuming the property purchased  
14 in producing for sale a new article of tangible personal property or  
15 substance, of which such property becomes an ingredient or component or  
16 is a chemical used in processing, when the primary purpose of such  
17 chemical is to create a chemical reaction directly through contact with  
18 an ingredient of a new article being produced for sale; or

19 (d) Purchases for the purpose of consuming the property purchased  
20 in producing ferrosilicon which is subsequently used in producing  
21 magnesium for sale, if the primary purpose of such property is to  
22 create a chemical reaction directly through contact with an ingredient  
23 of ferrosilicon; or

24 (e) Purchases for the purpose of providing the property to  
25 consumers as part of competitive telephone service, as defined in RCW  
26 82.04.065. The term ~~((shall))~~ includes every sale of tangible personal  
27 property which is used or consumed or to be used or consumed in the  
28 performance of any activity classified as a "sale at retail" or "retail  
29 sale" even though such property is resold or utilized as provided in  
30 (a), (b), (c), (d), or (e) of this subsection following such use. The  
31 term also means every sale of tangible personal property to persons  
32 engaged in any business which is taxable under RCW 82.04.280 (2) and  
33 (7), 82.04.290, and 82.04.2908; or

34 (f) Purchases for the purpose of satisfying the person's  
35 obligations under an extended warranty as defined in subsection (7) of  
36 this section, if such tangible personal property replaces or becomes an  
37 ingredient or component of property covered by the extended warranty  
38 without intervening use by such person.

1       (2) The term "sale at retail" or "retail sale" includes the sale of  
2 or charge made for tangible personal property consumed and/or for labor  
3 and services rendered in respect to the following:

4       (a) The installing, repairing, cleaning, altering, imprinting, or  
5 improving of tangible personal property of or for consumers, including  
6 charges made for the mere use of facilities in respect thereto, but  
7 excluding charges made for the use of self-service laundry facilities,  
8 and also excluding sales of laundry service to nonprofit health care  
9 facilities, and excluding services rendered in respect to live animals,  
10 birds and insects;

11       (b) The constructing, repairing, decorating, or improving of new or  
12 existing buildings or other structures under, upon, or above real  
13 property of or for consumers, including the installing or attaching of  
14 any article of tangible personal property therein or thereto, whether  
15 or not such personal property becomes a part of the realty by virtue of  
16 installation, and (~~shall~~) also includes the sale of services or  
17 charges made for the clearing of land and the moving of earth excepting  
18 the mere leveling of land used in commercial farming or agriculture;

19       (c) The constructing, repairing, or improving of any structure  
20 upon, above, or under any real property owned by an owner who conveys  
21 the property by title, possession, or any other means to the person  
22 performing such construction, repair, or improvement for the purpose of  
23 performing such construction, repair, or improvement and the property  
24 is then reconveyed by title, possession, or any other means to the  
25 original owner;

26       (d) The cleaning, fumigating, razing, or moving of existing  
27 buildings or structures, but may not include the charge made for  
28 janitorial services; and for purposes of this section the term  
29 "janitorial services" shall mean those cleaning and caretaking services  
30 ordinarily performed by commercial janitor service businesses  
31 including, but not limited to, wall and window washing, floor cleaning  
32 and waxing, and the cleaning in place of rugs, drapes and upholstery.  
33 The term "janitorial services" does not include painting, papering,  
34 repairing, furnace or septic tank cleaning, snow removal or  
35 sandblasting;

36       (e) Automobile towing and similar automotive transportation  
37 services, but not in respect to those required to report and pay taxes  
38 under chapter 82.16 RCW;

1 (f) The furnishing of lodging and all other services by a hotel,  
2 rooming house, tourist court, motel, trailer camp, and the granting of  
3 any similar license to use real property, as distinguished from the  
4 renting or leasing of real property, and it is presumed that the  
5 occupancy of real property for a continuous period of one month or more  
6 constitutes a rental or lease of real property and not a mere license  
7 to use or enjoy the same. For the purposes of this subsection, it  
8 (~~shall be~~) is presumed that the sale of and charge made for the  
9 furnishing of lodging for a continuous period of one month or more to  
10 a person is a rental or lease of real property and not a mere license  
11 to enjoy the same;

12 (g) The installing, repairing, altering, or improving of digital  
13 goods for consumers;

14 (h) Persons taxable under (a)(~~, (b), (c), (d), (e), (f), and (g)~~)  
15 through (g) of this subsection when such sales or charges are for  
16 property, labor and services which are used or consumed in whole or in  
17 part by such persons in the performance of any activity defined as a  
18 "sale at retail" or "retail sale" even though such property, labor and  
19 services may be resold after such use or consumption. Nothing  
20 contained in this subsection (~~shall~~) may be construed to modify  
21 subsection (1) of this section and nothing contained in subsection (1)  
22 of this section may be construed to modify this subsection.

23 (3) The term "sale at retail" or "retail sale" includes the sale of  
24 or charge made for personal, business, or professional services  
25 including amounts designated as interest, rents, fees, admission, and  
26 other service emoluments however designated, received by persons  
27 engaging in the following business activities:

28 (a) Amusement and recreation services including but not limited to  
29 golf, pool, billiards, skating, bowling, ski lifts and tows, day trips  
30 for sightseeing purposes, and others, when provided to consumers;

31 (b) Abstract, title insurance, and escrow services;

32 (c) Credit bureau services;

33 (d) Automobile parking and storage garage services;

34 (e) Landscape maintenance and horticultural services but excluding  
35 (i) horticultural services provided to farmers and (ii) pruning,  
36 trimming, repairing, removing, and clearing of trees and brush near  
37 electric transmission or distribution lines or equipment, if performed  
38 by or at the direction of an electric utility;



1 (f) Service charges associated with tickets to professional  
2 sporting events; ~~((and))~~

3 (g) The following personal services: Physical fitness services,  
4 tanning salon services, tattoo parlor services, steam bath services,  
5 turkish bath services, escort services, and dating services;

6 (h) Cosmetic medical services.

7 (4)(a) The term also includes:

8 (i) The renting or leasing of tangible personal property to  
9 consumers; and

10 (ii) Providing tangible personal property along with an operator  
11 for a fixed or indeterminate period of time. A consideration of this  
12 is that the operator is necessary for the tangible personal property to  
13 perform as designed. For the purpose of this subsection (4)(a)(ii), an  
14 operator must do more than maintain, inspect, or set up the tangible  
15 personal property.

16 (b) The term does not include the renting or leasing of tangible  
17 personal property where the lease or rental is for the purpose of  
18 sublease or subrent.

19 (5) The term also includes the providing of "competitive telephone  
20 service," "telecommunications service," or "ancillary services," as  
21 those terms are defined in RCW 82.04.065, to consumers.

22 (6)(a) The term also includes the sale of prewritten computer  
23 software other than a sale to a person who presents a seller's permit  
24 or uniform exemption certificate in conformity with RCW 82.04.470,  
25 regardless of the method of delivery to the end user. For purposes of  
26 this subsection (6)(a), the sale of prewritten computer software  
27 includes the sale of or charge made for a key or an enabling or  
28 activation code, where the key or code is required to activate  
29 prewritten computer software and put the software into use. There is  
30 no separate sale of the key or code from the prewritten computer  
31 software, regardless of how the sale may be characterized by the vendor  
32 or by the purchaser.

33 ~~((The term "retail sale" does not include the sale of or charge  
34 made for:~~

35 ~~(i) Custom software; or~~

36 ~~(ii) The customization of prewritten computer software.))~~

37 (b) The term also includes the charge made to consumers for the  
38 right to access and use prewritten computer software, where possession

1 of the software is maintained by the seller or a third party,  
2 regardless of whether the charge for the service is on a per use, per  
3 user, per license, subscription, or some other basis.

4 (7)(a) The term also includes the sale of or charge made for  
5 custom software and the customization of prewritten computer software  
6 to a consumer, regardless of the method of delivery to the consumer.

7 (b) The term also includes the charge made to consumers for the  
8 right to access and use custom software and customized prewritten  
9 computer software, where possession of the software is maintained by  
10 the seller or a third party.

11 (8) The term also includes the sale of or charge made for an  
12 extended warranty to a consumer. For purposes of this subsection,  
13 "extended warranty" means an agreement for a specified duration to  
14 perform the replacement or repair of tangible personal property at no  
15 additional charge or a reduced charge for tangible personal property,  
16 labor, or both, or to provide indemnification for the replacement or  
17 repair of tangible personal property, based on the occurrence of  
18 specified events. The term "extended warranty" does not include an  
19 agreement, otherwise meeting the definition of extended warranty in  
20 this subsection, if no separate charge is made for the agreement and  
21 the value of the agreement is included in the sales price of the  
22 tangible personal property covered by the agreement. For purposes of  
23 this subsection, "sales price" has the same meaning as in RCW  
24 82.08.010.

25 ~~((+8))~~ (9)(a) The term also includes the following sales to  
26 consumers of digital goods, digital codes, and digital automated  
27 services:

28 (i) Sales in which the seller has granted the purchaser the right  
29 of permanent use;

30 (ii) Sales in which the seller has granted the purchaser a right of  
31 use that is less than permanent;

32 (iii) Sales in which the purchaser is not obligated to make  
33 continued payment as a condition of the sale; and

34 (iv) Sales in which the purchaser is obligated to make continued  
35 payment as a condition of the sale.

36 (b) A retail sale of digital goods, digital codes, or digital  
37 automated services under this subsection ~~((+8))~~ (9) includes any

1 services provided by the seller exclusively in connection with the  
2 digital goods, digital codes, or digital automated services, whether or  
3 not a separate charge is made for such services.

4 (c) For purposes of this subsection, "permanent" means perpetual or  
5 for an indefinite or unspecified length of time. A right of permanent  
6 use is presumed to have been granted unless the agreement between the  
7 seller and the purchaser specifies or the circumstances surrounding the  
8 transaction suggest or indicate that the right to use terminates on the  
9 occurrence of a condition subsequent.

10 ~~((+9+))~~ (10) The term does not include the sale of or charge made  
11 for labor and services rendered in respect to the building, repairing,  
12 or improving of any street, place, road, highway, easement, right-of-  
13 way, mass public transportation terminal or parking facility, bridge,  
14 tunnel, or trestle which is owned by a municipal corporation or  
15 political subdivision of the state or by the United States and which is  
16 used or to be used primarily for foot or vehicular traffic including  
17 mass transportation vehicles of any kind.

18 ~~((+10+))~~ (11) The term also does not include sales of chemical  
19 sprays or washes to persons for the purpose of postharvest treatment of  
20 fruit for the prevention of scald, fungus, mold, or decay, nor does it  
21 include sales of feed, seed, seedlings, fertilizer, agents for enhanced  
22 pollination including insects such as bees, and spray materials to:  
23 (a) Persons who participate in the federal conservation reserve  
24 program, the environmental quality incentives program, the wetlands  
25 reserve program, and the wildlife habitat incentives program, or their  
26 successors administered by the United States department of agriculture;  
27 (b) farmers for the purpose of producing for sale any agricultural  
28 product; and (c) farmers acting under cooperative habitat development  
29 or access contracts with an organization exempt from federal income tax  
30 under ~~((Title))~~ 26 U.S.C. Sec. 501(c)(3) of the federal internal  
31 revenue code or the Washington state department of fish and wildlife to  
32 produce or improve wildlife habitat on land that the farmer owns or  
33 leases.

34 ~~((+11+))~~ (12) The term does not include the sale of or charge made  
35 for labor and services rendered in respect to the constructing,  
36 repairing, decorating, or improving of new or existing buildings or  
37 other structures under, upon, or above real property of or for the  
38 United States, any instrumentality thereof, or a county or city housing

1 authority created pursuant to chapter 35.82 RCW, including the  
2 installing, or attaching of any article of tangible personal property  
3 therein or thereto, whether or not such personal property becomes a  
4 part of the realty by virtue of installation. Nor does the term  
5 include the sale of services or charges made for the clearing of land  
6 and the moving of earth of or for the United States, any  
7 instrumentality thereof, or a county or city housing authority. Nor  
8 does the term include the sale of services or charges made for cleaning  
9 up for the United States, or its instrumentalities, radioactive waste  
10 and other by-products of weapons production and nuclear research and  
11 development.

12 ~~((+12+))~~ (13) The term does not include the sale of or charge made  
13 for labor, services, or tangible personal property pursuant to  
14 agreements providing maintenance services for bus, rail, or rail fixed  
15 guideway equipment when a regional transit authority is the recipient  
16 of the labor, services, or tangible personal property, and a transit  
17 agency, as defined in RCW 81.104.015, performs the labor or services.

18 NEW SECTION. Sec. 1503. A new section is added to chapter 82.04  
19 RCW to read as follows:

20 (1) "Cosmetic medical service" means any medical procedure  
21 performed on an individual by a person licensed or regulated in a  
22 health profession as described in RCW 18.120.020, and any services  
23 directly related to the performance of the medical procedure, that is  
24 directed at improving the individual's appearance and that is not  
25 medically necessary to promote the proper function of the body or  
26 prevent or treat physical illness or disease. "Cosmetic medical  
27 service" includes, but is not limited to, cosmetic surgery, hair  
28 transplants, cosmetic injections, cosmetic soft tissue fillers,  
29 dermabrasion and chemical peel, laser hair removal, laser skin  
30 resurfacing, laser treatment of leg veins, sclerotherapy, and cosmetic  
31 dentistry. Any medical procedure performed on abnormal structures  
32 caused by or related to congenital defects, developmental  
33 abnormalities, trauma, infection, tumors, or disease, including  
34 procedures to improve function or give a more normal appearance, is  
35 medically necessary. Services covered by the individual's medical or  
36 dental insurance or that are deductible by the individual as medical

1 expenses for purposes of federal income tax are presumed to be  
2 medically necessary services.

3 (2) "Cosmetic surgery" means the surgical reshaping of normal  
4 structures on the body to improve the body image, self-esteem, or  
5 appearance of an individual.

6 (3) "Services directly related to the performance of the medical  
7 procedure" include occupancy at medical facilities and services  
8 provided by an anesthesiologist, surgeon, or other licensed or  
9 regulated health professional described in RCW 18.120.020. Services  
10 required for or directly related to cosmetic medical services do not  
11 include evaluation and referral by a primary care physician or  
12 consultation or treatment by a counselor, psychologist, or  
13 psychiatrist.

14 (4) An individual claiming that a medical procedure, otherwise  
15 meeting the definition of cosmetic medical service in this section, is  
16 not a cosmetic medical service must complete and provide to the seller  
17 an affidavit in a form and manner prescribed by the department  
18 documenting that the procedure is medically necessary to promote the  
19 proper function of the body or prevent or treat physical illness or  
20 disease. The seller must retain a copy of the affidavit for the  
21 seller's files.

22 **Sec. 1504.** RCW 82.12.020 and 2009 c 535 s 305 are each amended to  
23 read as follows:

24 (1) There is ~~((hereby))~~ levied and ~~((there-shall-be))~~ collected  
25 from every person in this state a tax or excise for the privilege of  
26 using within this state as a consumer any:

27 (a) Article of tangible personal property purchased at retail, or  
28 acquired by lease, gift, repossession, or bailment, or extracted or  
29 produced or manufactured by the person so using the same, or otherwise  
30 furnished to a person engaged in any business taxable under RCW  
31 82.04.280 (2) or (7), including tangible personal property acquired at  
32 a casual or isolated sale, and including by-products used by the  
33 manufacturer thereof, except as otherwise provided in this chapter,  
34 irrespective of whether the article or similar articles are  
35 manufactured or are available for purchase within this state;

36 (b) Prewritten computer software, regardless of the method of

1 delivery, but excluding prewritten computer software that is either  
2 provided free of charge or is provided for temporary use in viewing  
3 information, or both;

4 (c) Services defined as a retail sale in RCW 82.04.050 (2)(a) or  
5 (g), (3)(a) or (h), or (6)(b), excluding services defined as a retail  
6 sale in RCW 82.04.050(6)(b) that are provided free of charge;

7 (d) Extended warranty; or

8 (e)(i) Digital good, digital code, or digital automated service,  
9 including the use of any services provided by a seller exclusively in  
10 connection with digital goods, digital codes, or digital automated  
11 services, whether or not a separate charge is made for such services.

12 (ii) With respect to the use of digital goods, digital automated  
13 services, and digital codes acquired by purchase, the tax imposed in  
14 this subsection (1)(e) applies in respect to:

15 (A) Sales in which the seller has granted the purchaser the right  
16 of permanent use;

17 (B) Sales in which the seller has granted the purchaser a right of  
18 use that is less than permanent;

19 (C) Sales in which the purchaser is not obligated to make continued  
20 payment as a condition of the sale; and

21 (D) Sales in which the purchaser is obligated to make continued  
22 payment as a condition of the sale.

23 (iii) With respect to digital goods, digital automated services,  
24 and digital codes acquired other than by purchase, the tax imposed in  
25 this subsection (1)(e) applies regardless of whether or not the  
26 consumer has a right of permanent use or is obligated to make continued  
27 payment as a condition of use.

28 (2) The provisions of this chapter do not apply in respect to the  
29 use of any article of tangible personal property, extended warranty,  
30 digital good, digital code, digital automated service, or service  
31 taxable under RCW 82.04.050 (2)(a) or (g), (3)(a) or (h), or (6)(b), if  
32 the sale to, or the use by, the present user or the present user's  
33 bailor or donor has already been subjected to the tax under chapter  
34 82.08 RCW or this chapter and the tax has been paid by the present user  
35 or by the present user's bailor or donor.

36 (3)(a) Except as provided in this section, payment of the tax  
37 imposed by this chapter or chapter 82.08 RCW by one purchaser or user  
38 of tangible personal property, extended warranty, digital good, digital

code, digital automated service, or other service does not have the effect of exempting any other purchaser or user of the same property, extended warranty, digital good, digital code, digital automated service, or other service from the taxes imposed by such chapters.

(b) The tax imposed by this chapter does not apply:

(i) If the sale to, or the use by, the present user or his or her bailor or donor has already been subjected to the tax under chapter 82.08 RCW or this chapter and the tax has been paid by the present user or by his or her bailor or donor;

(ii) In respect to the use of any article of tangible personal property acquired by bailment and the tax has once been paid based on reasonable rental as determined by RCW 82.12.060 measured by the value of the article at time of first use multiplied by the tax rate imposed by chapter 82.08 RCW or this chapter as of the time of first use;

(iii) In respect to the use of any article of tangible personal property acquired by bailment, if the property was acquired by a previous bailee from the same bailor for use in the same general activity and the original bailment was prior to June 9, 1961; or

(iv) To the use of digital goods or digital automated services, which were obtained through the use of a digital code, if the sale of the digital code to, or the use of the digital code by, the present user or the present user's bailor or donor has already been subjected to the tax under chapter 82.08 RCW or this chapter and the tax has been paid by the present user or by the present user's bailor or donor.

(4)(a) Except as provided in (b) of this subsection (4), the tax is levied and must be collected in an amount equal to the value of the article used, value of the digital good or digital code used, value of the extended warranty used, or value of the service used by the taxpayer, multiplied by the applicable rates in effect for the retail sales tax under RCW 82.08.020.

(b) In the case of a seller required to collect use tax from the purchaser, the tax must be collected in an amount equal to the purchase price multiplied by the applicable rate in effect for the retail sales tax under RCW 82.08.020.

**Sec. 1505.** RCW 82.12.010 and 2009 c 535 s 304 are each amended to read as follows:

For the purposes of this chapter:

1 (1) "Purchase price" means the same as sales price as defined in  
2 RCW 82.08.010;

3 (2)(a) "Value of the article used" (~~((shall be))~~) is the purchase  
4 price for the article of tangible personal property, the use of which  
5 is taxable under this chapter. The term also includes, in addition to  
6 the purchase price, the amount of any tariff or duty paid with respect  
7 to the importation of the article used. In case the article used is  
8 acquired by lease or by gift or is extracted, produced, or manufactured  
9 by the person using the same or is sold under conditions wherein the  
10 purchase price does not represent the true value thereof, the value of  
11 the article used (~~((shall))~~) must be determined as nearly as possible  
12 according to the retail selling price at place of use of similar  
13 products of like quality and character under such rules as the  
14 department may prescribe.

15 (b) In case the articles used are acquired by bailment, the value  
16 of the use of the articles so used (~~((shall))~~) must be in an amount  
17 representing a reasonable rental for the use of the articles so bailed,  
18 determined as nearly as possible according to the value of such use at  
19 the places of use of similar products of like quality and character  
20 under such rules as the department of revenue may prescribe. In case  
21 any such articles of tangible personal property are used in respect to  
22 the construction, repairing, decorating, or improving of, and which  
23 become or are to become an ingredient or component of, new or existing  
24 buildings or other structures under, upon, or above real property of or  
25 for the United States, any instrumentality thereof, or a county or city  
26 housing authority created pursuant to chapter 35.82 RCW, including the  
27 installing or attaching of any such articles therein or thereto,  
28 whether or not such personal property becomes a part of the realty by  
29 virtue of installation, then the value of the use of such articles so  
30 used (~~((shall))~~) must be determined according to the retail selling price  
31 of such articles, or in the absence of such a selling price, as nearly  
32 as possible according to the retail selling price at place of use of  
33 similar products of like quality and character or, in the absence of  
34 either of these selling price measures, such value may be determined  
35 upon a cost basis, in any event under such rules as the department of  
36 revenue may prescribe.

37 (c) In the case of articles owned by a user engaged in business  
38 outside the state which are brought into the state for no more than one



1 hundred eighty days in any period of three hundred sixty-five  
2 consecutive days and which are temporarily used for business purposes  
3 by the person in this state, the value of the article used (~~((shall))~~)  
4 must be an amount representing a reasonable rental for the use of the  
5 articles, unless the person has paid tax under this chapter or chapter  
6 82.08 RCW upon the full value of the article used, as defined in (a) of  
7 this subsection.

8 (d) In the case of articles manufactured or produced by the user  
9 and used in the manufacture or production of products sold or to be  
10 sold to the department of defense of the United States, the value of  
11 the articles used (~~((shall))~~) must be determined according to the value  
12 of the ingredients of such articles.

13 (e) In the case of an article manufactured or produced for purposes  
14 of serving as a prototype for the development of a new or improved  
15 product, the value of the article used (~~((shall))~~) must be determined by:  
16 (i) The retail selling price of such new or improved product when first  
17 offered for sale; or (ii) the value of materials incorporated into the  
18 prototype in cases in which the new or improved product is not offered  
19 for sale.

20 (f) In the case of an article purchased with a direct pay permit  
21 under RCW 82.32.087, the value of the article used (~~((shall))~~) must be  
22 determined by the purchase price of such article if, but for the use of  
23 the direct pay permit, the transaction would have been subject to sales  
24 tax;

25 (3) "Value of the service used" means the purchase price for the  
26 digital automated service or other service, the use of which is taxable  
27 under this chapter. If the service is received by gift or under  
28 conditions wherein the purchase price does not represent the true value  
29 thereof, the value of the service used (~~((shall))~~) must be determined as  
30 nearly as possible according to the retail selling price at place of  
31 use of similar services of like quality and character under rules the  
32 department may prescribe;

33 (4) "Value of the extended warranty used" means the purchase price  
34 for the extended warranty, the use of which is taxable under this  
35 chapter. If the extended warranty is received by gift or under  
36 conditions wherein the purchase price does not represent the true value  
37 of the extended warranty, the value of the extended warranty used

1 (~~shall~~) must be determined as nearly as possible according to the  
2 retail selling price at place of use of similar extended warranties of  
3 like quality and character under rules the department may prescribe;

4 (5) "Value of the digital good or digital code used" means the  
5 purchase price for the digital good or digital code, the use of which  
6 is taxable under this chapter. If the digital good or digital code is  
7 acquired other than by purchase, the value of the digital good or  
8 digital code must be determined as nearly as possible according to the  
9 retail selling price at place of use of similar digital goods or  
10 digital codes of like quality and character under rules the department  
11 may prescribe;

12 (6) "Use," "used," "using," or "put to use" have their ordinary  
13 meaning, and mean:

14 (a) With respect to tangible personal property, the first act  
15 within this state by which the taxpayer takes or assumes dominion or  
16 control over the article of tangible personal property (as a consumer),  
17 and include installation, storage, withdrawal from storage,  
18 distribution, or any other act preparatory to subsequent actual use or  
19 consumption within this state;

20 (b) With respect to a service defined in RCW 82.04.050(2)(a), the  
21 first act within this state after the service has been performed by  
22 which the taxpayer takes or assumes dominion or control over the  
23 article of tangible personal property upon which the service was  
24 performed (as a consumer), and includes installation, storage,  
25 withdrawal from storage, distribution, or any other act preparatory to  
26 subsequent actual use or consumption of the article within this state;

27 (c) With respect to an extended warranty, the first act within this  
28 state after the extended warranty has been acquired by which the  
29 taxpayer takes or assumes dominion or control over the article of  
30 tangible personal property to which the extended warranty applies, and  
31 includes installation, storage, withdrawal from storage, distribution,  
32 or any other act preparatory to subsequent actual use or consumption of  
33 the article within this state;

34 (d) With respect to a digital good or digital code, the first act  
35 within this state by which the taxpayer, as a consumer, views,  
36 accesses, downloads, possesses, stores, opens, manipulates, or  
37 otherwise uses or enjoys the digital good or digital code;

1 (e) With respect to a digital automated service, the first act  
2 within this state by which the taxpayer, as a consumer, uses, enjoys,  
3 or otherwise receives the benefit of the service;

4 (f) With respect to a service defined as a retail sale in RCW  
5 82.04.050(6)(b), the first act within this state by which the taxpayer,  
6 as a consumer, accesses the prewritten computer software; ~~((and))~~

7 (g) With respect to a service defined as a retail sale in RCW  
8 82.04.050(2)(g), the first act within this state after the service has  
9 been performed by which the taxpayer, as a consumer, views, accesses,  
10 downloads, possesses, stores, opens, manipulates, or otherwise uses or  
11 enjoys the digital good upon which the service was performed; and

12 (h) With respect to a service described in RCW 82.04.050(3)(h), the  
13 first presence within this state by the taxpayer after the service has  
14 been performed upon that taxpayer;

15 (7) "Taxpayer" and "purchaser" include all persons included within  
16 the meaning of the word "buyer" and the word "consumer" as defined in  
17 chapters 82.04 and 82.08 RCW;

18 (8)(a)(i) Except as provided in (a)(ii) of this subsection (8),  
19 "retailer" means every seller as defined in RCW 82.08.010 and every  
20 person engaged in the business of selling tangible personal property at  
21 retail and every person required to collect from purchasers the tax  
22 imposed under this chapter.

23 (ii) "Retailer" does not include a professional employer  
24 organization when a covered employee coemployed with the client under  
25 the terms of a professional employer agreement engages in activities  
26 that constitute a sale of tangible personal property, extended  
27 warranty, digital good, digital code, or a sale of any digital  
28 automated service or service defined as a retail sale in RCW 82.04.050  
29 (2)(a) or (g), (3)(a), or (6)(b) that is subject to the tax imposed by  
30 this chapter. In such cases, the client, and not the professional  
31 employer organization, is deemed to be the retailer and is responsible  
32 for collecting and remitting the tax imposed by this chapter.

33 (b) For the purposes of (a) of this subsection, the terms "client,"  
34 "covered employee," "professional employer agreement," and  
35 "professional employer organization" have the same meanings as in RCW  
36 82.04.540;

37 (9) "Extended warranty" has the same meaning as in RCW  
38 82.04.050(7);

1 (10) The meaning ascribed to words and phrases in chapters 82.04  
2 and 82.08 RCW, insofar as applicable, (~~((shall have))~~) has full force and  
3 effect with respect to taxes imposed under the provisions of this  
4 chapter. "Consumer," in addition to the meaning ascribed to it in  
5 chapters 82.04 and 82.08 RCW insofar as applicable, (~~((shall))~~) also  
6 means any person who distributes or displays, or causes to be  
7 distributed or displayed, any article of tangible personal property,  
8 except newspapers, the primary purpose of which is to promote the sale  
9 of products or services. With respect to property distributed to  
10 persons within this state by a consumer as defined in this subsection  
11 (10), the use of the property (~~((shall be))~~) is deemed to be by such  
12 consumer.

13 **Sec. 1506.** RCW 82.12.035 and 2009 c 535 s 1107 are each amended to  
14 read as follows:

15 A credit is allowed against the taxes imposed by this chapter upon  
16 the use in this state of tangible personal property, extended warranty,  
17 digital good, digital code, digital automated service, or services  
18 defined as a retail sale in RCW 82.04.050 (2)(a) or (g), (3)(a) or (h),  
19 or (6)(b), in the amount that the present user thereof or his or her  
20 bailor or donor has paid a legally imposed retail sales or use tax with  
21 respect to such property, extended warranty, digital good, digital  
22 code, digital automated service, or service defined as a retail sale in  
23 RCW 82.04.050 (2)(a) or (g), (3)(a), or (6)(b) to any other state,  
24 possession, territory, or commonwealth of the United States, any  
25 political subdivision thereof, the District of Columbia, and any  
26 foreign country or political subdivision thereof.

27 **Sec. 1507.** RCW 82.04.060 and 2009 c 535 s 403 are each amended to  
28 read as follows:

29 "Sale at wholesale" or "wholesale sale" means:

30 (1) Any sale, which is not a sale at retail, of:

31 (a) Tangible personal property;

32 (b) Services defined as a retail sale in RCW 82.04.050(2) (a) or  
33 (g);

34 (c) Amusement or recreation services as defined in RCW  
35 82.04.050(3)(a);

36 (d) Prewritten computer software;

1 (e) Services described in RCW 82.04.050 (6)(b) or (7);  
2 (f) Extended warranties as defined in RCW 82.04.050(7);  
3 (g) Competitive telephone service, ancillary services, or  
4 telecommunications service as those terms are defined in RCW 82.04.065;  
5 or  
6 (h) Digital goods, digital codes, or digital automated services;  
7 and  
8 (2) Any charge made for labor and services rendered for persons who  
9 are not consumers, in respect to real or personal property, if such  
10 charge is expressly defined as a retail sale by RCW 82.04.050 when  
11 rendered to or for consumers. For the purposes of this subsection (2),  
12 "real or personal property" does not include any natural products named  
13 in RCW 82.04.100.

14 **Sec. 1508.** RCW 82.04.190 and 2009 c 535 s 302 are each amended to  
15 read as follows:

16 "Consumer" means the following:

17 (1) Any person who purchases, acquires, owns, holds, or uses any  
18 article of tangible personal property irrespective of the nature of the  
19 person's business and including, among others, without limiting the  
20 scope hereof, persons who install, repair, clean, alter, improve,  
21 construct, or decorate real or personal property of or for consumers  
22 other than for the purpose (a) of resale as tangible personal property  
23 in the regular course of business or (b) of incorporating such property  
24 as an ingredient or component of real or personal property when  
25 installing, repairing, cleaning, altering, imprinting, improving,  
26 constructing, or decorating such real or personal property of or for  
27 consumers or (c) of consuming such property in producing for sale a new  
28 article of tangible personal property or a new substance, of which such  
29 property becomes an ingredient or component or as a chemical used in  
30 processing, when the primary purpose of such chemical is to create a  
31 chemical reaction directly through contact with an ingredient of a new  
32 article being produced for sale or (d) of consuming the property  
33 purchased in producing ferrosilicon which is subsequently used in  
34 producing magnesium for sale, if the primary purpose of such property  
35 is to create a chemical reaction directly through contact with an  
36 ingredient of ferrosilicon or (e) of satisfying the person's  
37 obligations under an extended warranty as defined in RCW 82.04.050(7),

1 if such tangible personal property replaces or becomes an ingredient or  
2 component of property covered by the extended warranty without  
3 intervening use by such person;

4 (2)(a) Any person engaged in any business activity taxable under  
5 RCW 82.04.290 or 82.04.2908; (b) any person who purchases, acquires, or  
6 uses any competitive telephone service, ancillary services, or  
7 telecommunications service as those terms are defined in RCW 82.04.065,  
8 other than for resale in the regular course of business; (c) any person  
9 who purchases, acquires, or uses any service defined in RCW  
10 82.04.050(2) (a) or (g), other than for resale in the regular course of  
11 business or for the purpose of satisfying the person's obligations  
12 under an extended warranty as defined in RCW 82.04.050(7); (d) any  
13 person who purchases, acquires, or uses any amusement and recreation  
14 service defined in RCW 82.04.050(3)(a), other than for resale in the  
15 regular course of business; (e) any person who purchases or acquires an  
16 extended warranty as defined in RCW 82.04.050(7) other than for resale  
17 in the regular course of business; and (f) any person who is an end  
18 user of software. For purposes of this subsection (2)(f) and RCW  
19 82.04.050(6), a person who purchases or otherwise acquires prewritten  
20 computer software, who provides services described in RCW  
21 82.04.050(6)(b) and who will charge consumers for the right to access  
22 and use the prewritten computer software, is not an end user of the  
23 prewritten computer software;

24 (3) Any person engaged in the business of contracting for the  
25 building, repairing or improving of any street, place, road, highway,  
26 easement, right-of-way, mass public transportation terminal or parking  
27 facility, bridge, tunnel, or trestle which is owned by a municipal  
28 corporation or political subdivision of the state of Washington or by  
29 the United States and which is used or to be used primarily for foot or  
30 vehicular traffic including mass transportation vehicles of any kind as  
31 defined in RCW 82.04.280, in respect to tangible personal property when  
32 such person incorporates such property as an ingredient or component of  
33 such publicly owned street, place, road, highway, easement,  
34 right-of-way, mass public transportation terminal or parking facility,  
35 bridge, tunnel, or trestle by installing, placing or spreading the  
36 property in or upon the right-of-way of such street, place, road,  
37 highway, easement, bridge, tunnel, or trestle or in or upon the site of  
38 such mass public transportation terminal or parking facility;

1 (4) Any person who is an owner, lessee or has the right of  
2 possession to or an easement in real property which is being  
3 constructed, repaired, decorated, improved, or otherwise altered by a  
4 person engaged in business, excluding only (a) municipal corporations  
5 or political subdivisions of the state in respect to labor and services  
6 rendered to their real property which is used or held for public road  
7 purposes, and (b) the United States, instrumentalities thereof, and  
8 county and city housing authorities created pursuant to chapter 35.82  
9 RCW in respect to labor and services rendered to their real property.  
10 Nothing contained in this or any other subsection of this definition  
11 shall be construed to modify any other definition of "consumer";

12 (5) Any person who is an owner, lessee, or has the right of  
13 possession to personal property which is being constructed, repaired,  
14 improved, cleaned, imprinted, or otherwise altered by a person engaged  
15 in business;

16 (6) Any person engaged in the business of constructing, repairing,  
17 decorating, or improving new or existing buildings or other structures  
18 under, upon, or above real property of or for the United States, any  
19 instrumentality thereof, or a county or city housing authority created  
20 pursuant to chapter 35.82 RCW, including the installing or attaching of  
21 any article of tangible personal property therein or thereto, whether  
22 or not such personal property becomes a part of the realty by virtue of  
23 installation; also, any person engaged in the business of clearing land  
24 and moving earth of or for the United States, any instrumentality  
25 thereof, or a county or city housing authority created pursuant to  
26 chapter 35.82 RCW. Any such person (~~(shall be)~~) is a consumer within  
27 the meaning of this subsection in respect to tangible personal property  
28 incorporated into, installed in, or attached to such building or other  
29 structure by such person, except that consumer does not include any  
30 person engaged in the business of constructing, repairing, decorating,  
31 or improving new or existing buildings or other structures under, upon,  
32 or above real property of or for the United States, or any  
33 instrumentality thereof, if the investment project would qualify for  
34 sales and use tax deferral under chapter 82.63 RCW if undertaken by a  
35 private entity;

36 (7) Any person who is a lessor of machinery and equipment, the  
37 rental of which is exempt from the tax imposed by RCW 82.08.020 under  
38 RCW 82.08.02565, with respect to the sale of or charge made for

1 tangible personal property consumed in respect to repairing the  
2 machinery and equipment, if the tangible personal property has a useful  
3 life of less than one year. Nothing contained in this or any other  
4 subsection of this section (~~((shall))~~) may be construed to modify any  
5 other definition of "consumer";

6 (8) Any person engaged in the business of cleaning up for the  
7 United States, or its instrumentalities, radioactive waste and other  
8 by-products of weapons production and nuclear research and development;

9 (9) Any person who is an owner, lessee, or has the right of  
10 possession of tangible personal property that, under the terms of an  
11 extended warranty as defined in RCW 82.04.050(7), has been repaired or  
12 is replacement property, but only with respect to the sale of or charge  
13 made for the repairing of the tangible personal property or the  
14 replacement property;

15 (10) Any person who purchases, acquires, or uses services described  
16 in RCW 82.04.050 (6)(b) or (7) other than for resale in the regular  
17 course of business; and

18 (11)(a) Any end user of a digital product or digital code.

19 (b)(i) For purposes of this subsection, "end user" means any  
20 taxpayer as defined in RCW 82.12.010 other than a taxpayer who receives  
21 by contract a digital product for further commercial broadcast,  
22 rebroadcast, transmission, retransmission, licensing, relicensing,  
23 distribution, redistribution or exhibition of the product, in whole or  
24 in part, to others. A person that purchases digital products or  
25 digital codes for the purpose of giving away such products or codes  
26 will not be considered to have engaged in the distribution or  
27 redistribution of such products or codes and will be treated as an end  
28 user;

29 (ii) If a purchaser of a digital code does not receive the  
30 contractual right to further redistribute, after the digital code is  
31 redeemed, the underlying digital product to which the digital code  
32 relates, then the purchaser of the digital code is an end user. If the  
33 purchaser of the digital code receives the contractual right to further  
34 redistribute, after the digital code is redeemed, the underlying  
35 digital product to which the digital code relates, then the purchaser  
36 of the digital code is not an end user. A purchaser of a digital code  
37 who has the contractual right to further redistribute the digital code



1 is an end user if that purchaser does not have the right to further  
2 redistribute, after the digital code is redeemed, the underlying  
3 digital product to which the digital code relates.

4       **Sec. 1509.** RCW 82.04.215 and 2003 c 168 s 601 are each amended to  
5 read as follows:

6       (1) "Computer" means an electronic device that accepts information  
7 in digital or similar form and manipulates it for a result based on a  
8 sequence of instructions.

9       (2) "Computer software" means a set of coded instructions designed  
10 to cause a computer or automatic data processing equipment to perform  
11 a task. All software is classified as either prewritten or custom.  
12 Consistent with this definition "computer software" includes only those  
13 sets of coded instructions intended for use by an end user and  
14 specifically excludes retained rights in software and master copies of  
15 software.

16       (3) "Custom software" means computer software created for a single  
17 person.

18       (4) "Customization of prewritten computer software" means any  
19 alteration, modification, or development of applications using or  
20 incorporating prewritten computer software for a specific person.  
21 "Customization of prewritten computer software" includes individualized  
22 configuration of software to work with other software and computer  
23 hardware but does not include routine installation. Customization of  
24 prewritten computer software does not change the underlying character  
25 or taxability of the original prewritten computer software.

26       (5) "Master copies" of software means copies of software from which  
27 a software developer, author, inventor, publisher, licensor,  
28 sublicensor, or distributor makes copies for sale or license.

29       (6) "Prewritten computer software" means computer software,  
30 including prewritten upgrades, that is not designed and developed by  
31 the author or other creator to the specifications of a specific  
32 purchaser. The combining of two or more prewritten computer software  
33 programs or prewritten portions thereof does not cause the combination  
34 to be other than prewritten computer software. Prewritten computer  
35 software includes software designed and developed by the author or  
36 other creator to the specifications of a specific purchaser when it is  
37 sold to a person other than such purchaser. Where a person modifies or

1 enhances computer software of which such persons is not the author or  
2 creator, the person (~~((shall be))~~) is deemed to be the author or creator  
3 only of the person's modifications or enhancements. Prewritten  
4 computer software or a prewritten portion thereof that is modified or  
5 enhanced to any degree, where such modification or enhancement is  
6 designed and developed to the specifications of a specific purchaser,  
7 remains prewritten computer software; however where there is a  
8 reasonable, separately stated charge or an invoice or other statement  
9 of the price given to the purchaser for the modification or  
10 enhancement, the modification or enhancement (~~((shall))~~) does not  
11 constitute prewritten computer software.

12 (7) "Retained rights" means any and all rights, including  
13 intellectual property rights such as those rights arising from  
14 copyrights, patents, and trade secret laws, that are owned or are held  
15 under contract or license by a software developer, author, inventor,  
16 publisher, licensor, sublicensor, or distributor.

17 NEW \_\_ SECTION. **Sec. 1510.** RCW 82.04.29001 (Creation and  
18 distribution of custom software--Customization of prewritten computer  
19 software--Taxable services) and 2003 c 168 s 602 & 1998 c 332 s 4 are  
20 each repealed.

21 **Sec. 1511.** RCW 82.08.02088 and 2009 c 535 s 701 are each amended  
22 to read as follows:

23 (1) The tax imposed by RCW 82.08.020 does not apply to the sale of  
24 digital goods, digital codes, digital automated services, prewritten  
25 computer software, or services defined as a retail sale in RCW  
26 82.04.050 (6)(b) or (7) to a buyer that provides the seller with an  
27 exemption certificate claiming multiple points of use. An exemption  
28 certificate claiming multiple points of use must be in a form and  
29 contain such information as required by the department.

30 (2) A buyer is entitled to use an exemption certificate claiming  
31 multiple points of use only if the buyer is a business or other  
32 organization and the digital goods or digital automated services  
33 purchased, or the digital goods or digital automated services to be  
34 obtained by the digital code purchased, or the prewritten computer  
35 software or services defined as a retail sale in RCW 82.04.050 (6)(b)  
36 or (7) purchased will be concurrently available for use within and

1 outside this state. A buyer is not entitled to use an exemption  
2 certificate claiming multiple points of use for digital goods, digital  
3 codes, digital automated services, prewritten computer software, or  
4 services defined as a retail sale in RCW 82.04.050(6)(b) purchased for  
5 personal use.

6 (3) A buyer claiming an exemption under this section must report  
7 and pay the tax imposed in RCW 82.12.020 and any local use taxes  
8 imposed under the authority of chapter 82.14 RCW and RCW 81.104.170  
9 directly to the department in accordance with RCW 82.12.02088 and  
10 82.14.457.

11 (4) For purposes of this section, "concurrently available for use  
12 within and outside this state" means that employees or other agents of  
13 the buyer may use the digital goods, digital automated services,  
14 prewritten computer software, or services defined as a retail sale in  
15 RCW 82.04.050 (6)(b) or (7) simultaneously from one or more locations  
16 within this state and one or more locations outside this state. A  
17 digital code is concurrently available for use within and outside this  
18 state if employees or other agents of the buyer may use the digital  
19 goods or digital automated services to be obtained by the code  
20 simultaneously at one or more locations within this state and one or  
21 more locations outside this state.

22 **Sec. 1512.** RCW 82.12.010 and 2009 c 535 s 304 are each amended to  
23 read as follows:

24 For the purposes of this chapter:

25 (1) "Purchase price" means the same as sales price as defined in  
26 RCW 82.08.010;

27 (2)(a) "Value of the article used" (~~((shall be))~~) is the purchase  
28 price for the article of tangible personal property, the use of which  
29 is taxable under this chapter. The term also includes, in addition to  
30 the purchase price, the amount of any tariff or duty paid with respect  
31 to the importation of the article used. In case the article used is  
32 acquired by lease or by gift or is extracted, produced, or manufactured  
33 by the person using the same or is sold under conditions wherein the  
34 purchase price does not represent the true value thereof, the value of  
35 the article used (~~((shall))~~) must be determined as nearly as possible  
36 according to the retail selling price at place of use of similar

1 products of like quality and character under such rules as the  
2 department may prescribe.

3 (b) In case the articles used are acquired by bailment, the value  
4 of the use of the articles so used (~~((shall))~~) must be in an amount  
5 representing a reasonable rental for the use of the articles so bailed,  
6 determined as nearly as possible according to the value of such use at  
7 the places of use of similar products of like quality and character  
8 under such rules as the department of revenue may prescribe. In case  
9 any such articles of tangible personal property are used in respect to  
10 the construction, repairing, decorating, or improving of, and which  
11 become or are to become an ingredient or component of, new or existing  
12 buildings or other structures under, upon, or above real property of or  
13 for the United States, any instrumentality thereof, or a county or city  
14 housing authority created pursuant to chapter 35.82 RCW, including the  
15 installing or attaching of any such articles therein or thereto,  
16 whether or not such personal property becomes a part of the realty by  
17 virtue of installation, then the value of the use of such articles so  
18 used (~~((shall))~~) must be determined according to the retail selling price  
19 of such articles, or in the absence of such a selling price, as nearly  
20 as possible according to the retail selling price at place of use of  
21 similar products of like quality and character or, in the absence of  
22 either of these selling price measures, such value may be determined  
23 upon a cost basis, in any event under such rules as the department of  
24 revenue may prescribe.

25 (c) In the case of articles owned by a user engaged in business  
26 outside the state which are brought into the state for no more than one  
27 hundred eighty days in any period of three hundred sixty-five  
28 consecutive days and which are temporarily used for business purposes  
29 by the person in this state, the value of the article used (~~((shall))~~)  
30 must be an amount representing a reasonable rental for the use of the  
31 articles, unless the person has paid tax under this chapter or chapter  
32 82.08 RCW upon the full value of the article used, as defined in (a) of  
33 this subsection.

34 (d) In the case of articles manufactured or produced by the user  
35 and used in the manufacture or production of products sold or to be  
36 sold to the department of defense of the United States, the value of  
37 the articles used (~~((shall))~~) must be determined according to the value  
38 of the ingredients of such articles.

1 (e) In the case of an article manufactured or produced for purposes  
2 of serving as a prototype for the development of a new or improved  
3 product, the value of the article used (~~((shall))~~) must be determined by:  
4 (i) The retail selling price of such new or improved product when first  
5 offered for sale; or (ii) the value of materials incorporated into the  
6 prototype in cases in which the new or improved product is not offered  
7 for sale.

8 (f) In the case of an article purchased with a direct pay permit  
9 under RCW 82.32.087, the value of the article used (~~((shall-be))~~) is  
10 determined by the purchase price of such article if, but for the use of  
11 the direct pay permit, the transaction would have been subject to sales  
12 tax;

13 (3) "Value of the service used" means the purchase price for the  
14 digital automated service or other service, the use of which is taxable  
15 under this chapter. If the service is received by gift or under  
16 conditions wherein the purchase price does not represent the true value  
17 thereof, the value of the service used (~~((shall))~~) must be determined as  
18 nearly as possible according to the retail selling price at place of  
19 use of similar services of like quality and character under rules the  
20 department may prescribe;

21 (4) "Value of the extended warranty used" means the purchase price  
22 for the extended warranty, the use of which is taxable under this  
23 chapter. If the extended warranty is received by gift or under  
24 conditions wherein the purchase price does not represent the true value  
25 of the extended warranty, the value of the extended warranty used  
26 (~~((shall))~~) must be determined as nearly as possible according to the  
27 retail selling price at place of use of similar extended warranties of  
28 like quality and character under rules the department may prescribe;

29 (5) "Value of the digital good or digital code used" means the  
30 purchase price for the digital good or digital code, the use of which  
31 is taxable under this chapter. If the digital good or digital code is  
32 acquired other than by purchase, the value of the digital good or  
33 digital code must be determined as nearly as possible according to the  
34 retail selling price at place of use of similar digital goods or  
35 digital codes of like quality and character under rules the department  
36 may prescribe;

37 (6) "Use," "used," "using," or "put to use" have their ordinary  
38 meaning, and mean:

1 (a) With respect to tangible personal property, the first act  
2 within this state by which the taxpayer takes or assumes dominion or  
3 control over the article of tangible personal property (as a consumer),  
4 and include installation, storage, withdrawal from storage,  
5 distribution, or any other act preparatory to subsequent actual use or  
6 consumption within this state;

7 (b) With respect to a service defined in RCW 82.04.050(2)(a), the  
8 first act within this state after the service has been performed by  
9 which the taxpayer takes or assumes dominion or control over the  
10 article of tangible personal property upon which the service was  
11 performed (as a consumer), and includes installation, storage,  
12 withdrawal from storage, distribution, or any other act preparatory to  
13 subsequent actual use or consumption of the article within this state;

14 (c) With respect to an extended warranty, the first act within this  
15 state after the extended warranty has been acquired by which the  
16 taxpayer takes or assumes dominion or control over the article of  
17 tangible personal property to which the extended warranty applies, and  
18 includes installation, storage, withdrawal from storage, distribution,  
19 or any other act preparatory to subsequent actual use or consumption of  
20 the article within this state;

21 (d) With respect to a digital good or digital code, the first act  
22 within this state by which the taxpayer, as a consumer, views,  
23 accesses, downloads, possesses, stores, opens, manipulates, or  
24 otherwise uses or enjoys the digital good or digital code;

25 (e) With respect to a digital automated service, the first act  
26 within this state by which the taxpayer, as a consumer, uses, enjoys,  
27 or otherwise receives the benefit of the service;

28 (f) With respect to a service defined as a retail sale in RCW  
29 82.04.050 (6)(b) or (7), the first act within this state by which the  
30 taxpayer, as a consumer, accesses the ((~~prewritten~~)) computer software;  
31 and

32 (g) With respect to a service defined as a retail sale in RCW  
33 82.04.050(2)(g), the first act within this state after the service has  
34 been performed by which the taxpayer, as a consumer, views, accesses,  
35 downloads, possesses, stores, opens, manipulates, or otherwise uses or  
36 enjoys the digital good upon which the service was performed;

37 (7) "Taxpayer" and "purchaser" include all persons included within

1 the meaning of the word "buyer" and the word "consumer" as defined in  
2 chapters 82.04 and 82.08 RCW;

3 (8)(a)(i) Except as provided in (a)(ii) of this subsection (8),  
4 "retailer" means every seller as defined in RCW 82.08.010 and every  
5 person engaged in the business of selling tangible personal property at  
6 retail and every person required to collect from purchasers the tax  
7 imposed under this chapter.

8 (ii) "Retailer" does not include a professional employer  
9 organization when a covered employee coemployed with the client under  
10 the terms of a professional employer agreement engages in activities  
11 that constitute a sale of tangible personal property, extended  
12 warranty, digital good, digital code, or a sale of any digital  
13 automated service or service defined as a retail sale in RCW 82.04.050  
14 (2)(a) or (g), (3)(a), ~~((or))~~ (6)(b), or (7) that is subject to the tax  
15 imposed by this chapter. In such cases, the client, and not the  
16 professional employer organization, is deemed to be the retailer and is  
17 responsible for collecting and remitting the tax imposed by this  
18 chapter.

19 (b) For the purposes of (a) of this subsection, the terms "client,"  
20 "covered employee," "professional employer agreement," and  
21 "professional employer organization" have the same meanings as in RCW  
22 82.04.540;

23 (9) "Extended warranty" has the same meaning as in RCW  
24 82.04.050(7);

25 (10) The meaning ascribed to words and phrases in chapters 82.04  
26 and 82.08 RCW, insofar as applicable, ~~((shall have))~~ has full force and  
27 effect with respect to taxes imposed under the provisions of this  
28 chapter. "Consumer," in addition to the meaning ascribed to it in  
29 chapters 82.04 and 82.08 RCW insofar as applicable, ~~((shall))~~ also  
30 means any person who distributes or displays, or causes to be  
31 distributed or displayed, any article of tangible personal property,  
32 except newspapers, the primary purpose of which is to promote the sale  
33 of products or services. With respect to property distributed to  
34 persons within this state by a consumer as defined in this subsection  
35 (10), the use of the property ~~((shall be))~~ is deemed to be by such  
36 consumer.

1       **Sec. 1513.** RCW 82.12.020 and 2009 c 535 s 305 are each amended to  
2 read as follows:

3       (1) There is ~~((hereby))~~ levied and ~~((there-shall-be))~~ collected  
4 from every person in this state a tax or excise for the privilege of  
5 using within this state as a consumer any:

6       (a) Article of tangible personal property purchased at retail, or  
7 acquired by lease, gift, repossession, or bailment, or extracted or  
8 produced or manufactured by the person so using the same, or otherwise  
9 furnished to a person engaged in any business taxable under RCW  
10 82.04.280 (2) or (7), including tangible personal property acquired at  
11 a casual or isolated sale, and including by-products used by the  
12 manufacturer thereof, except as otherwise provided in this chapter,  
13 irrespective of whether the article or similar articles are  
14 manufactured or are available for purchase within this state;

15       (b) Prewritten computer software, regardless of the method of  
16 delivery, but excluding prewritten computer software that is either  
17 provided free of charge or is provided for temporary use in viewing  
18 information, or both;

19       (c) Services defined as a retail sale in RCW 82.04.050 (2)(a) or  
20 (g), (3)(a), ~~((or))~~ (6)(b), or (7), excluding services defined as a  
21 retail sale in RCW 82.04.050(6)(b) that are provided free of charge;

22       (d) Extended warranty; or

23       (e)(i) Digital good, digital code, or digital automated service,  
24 including the use of any services provided by a seller exclusively in  
25 connection with digital goods, digital codes, or digital automated  
26 services, whether or not a separate charge is made for such services.

27       (ii) With respect to the use of digital goods, digital automated  
28 services, and digital codes acquired by purchase, the tax imposed in  
29 this subsection (1)(e) applies in respect to:

30       (A) Sales in which the seller has granted the purchaser the right  
31 of permanent use;

32       (B) Sales in which the seller has granted the purchaser a right of  
33 use that is less than permanent;

34       (C) Sales in which the purchaser is not obligated to make continued  
35 payment as a condition of the sale; and

36       (D) Sales in which the purchaser is obligated to make continued  
37 payment as a condition of the sale.



1 (iii) With respect to digital goods, digital automated services,  
2 and digital codes acquired other than by purchase, the tax imposed in  
3 this subsection (1)(e) applies regardless of whether or not the  
4 consumer has a right of permanent use or is obligated to make continued  
5 payment as a condition of use.

6 (2) The provisions of this chapter do not apply in respect to the  
7 use of any article of tangible personal property, extended warranty,  
8 digital good, digital code, digital automated service, or service  
9 taxable under RCW 82.04.050 (2)(a) or (g), (3)(a), ~~((e))~~ (6)(b), or  
10 (7), if the sale to, or the use by, the present user or the present  
11 user's bailor or donor has already been subjected to the tax under  
12 chapter 82.08 RCW or this chapter and the tax has been paid by the  
13 present user or by the present user's bailor or donor.

14 (3)(a) Except as provided in this section, payment of the tax  
15 imposed by this chapter or chapter 82.08 RCW by one purchaser or user  
16 of tangible personal property, extended warranty, digital good, digital  
17 code, digital automated service, or other service does not have the  
18 effect of exempting any other purchaser or user of the same property,  
19 extended warranty, digital good, digital code, digital automated  
20 service, or other service from the taxes imposed by such chapters.

21 (b) The tax imposed by this chapter does not apply:

22 (i) If the sale to, or the use by, the present user or his or her  
23 bailor or donor has already been subjected to the tax under chapter  
24 82.08 RCW or this chapter and the tax has been paid by the present user  
25 or by his or her bailor or donor;

26 (ii) In respect to the use of any article of tangible personal  
27 property acquired by bailment and the tax has once been paid based on  
28 reasonable rental as determined by RCW 82.12.060 measured by the value  
29 of the article at time of first use multiplied by the tax rate imposed  
30 by chapter 82.08 RCW or this chapter as of the time of first use;

31 (iii) In respect to the use of any article of tangible personal  
32 property acquired by bailment, if the property was acquired by a  
33 previous bailee from the same bailor for use in the same general  
34 activity and the original bailment was prior to June 9, 1961; or

35 (iv) To the use of digital goods or digital automated services,  
36 which were obtained through the use of a digital code, if the sale of  
37 the digital code to, or the use of the digital code by, the present

1 user or the present user's bailor or donor has already been subjected  
2 to the tax under chapter 82.08 RCW or this chapter and the tax has been  
3 paid by the present user or by the present user's bailor or donor.

4 (4)(a) Except as provided in (b) of this subsection (4), the tax is  
5 levied and must be collected in an amount equal to the value of the  
6 article used, value of the digital good or digital code used, value of  
7 the extended warranty used, or value of the service used by the  
8 taxpayer, multiplied by the applicable rates in effect for the retail  
9 sales tax under RCW 82.08.020.

10 (b) In the case of a seller required to collect use tax from the  
11 purchaser, the tax must be collected in an amount equal to the purchase  
12 price multiplied by the applicable rate in effect for the retail sales  
13 tax under RCW 82.08.020.

## 14 PART XVI

### 15 Increasing Tobacco Taxes

16 NEW SECTION. **Sec. 1601.** It is the intent of the legislature to  
17 use revenue raised from taxes levied on the sales of cigarettes and  
18 other tobacco products to fund basic health care services.

19 **Sec. 1602.** RCW 82.24.020 and 2009 c 479 s 66 are each amended to  
20 read as follows:

21 (1) There is levied and ~~((there shall be))~~ collected as provided in  
22 this chapter, a tax upon the sale, use, consumption, handling,  
23 possession, or distribution of all cigarettes, in an amount equal to  
24 ~~((one and fifteen one hundredths))~~ 12.125 cents per cigarette.

25 ~~((An additional tax is imposed upon the sale, use, consumption,~~  
26 ~~handling, possession, or distribution of all cigarettes, in an amount~~  
27 ~~equal to five hundred twenty five one thousandths of a cent per~~  
28 ~~cigarette. All revenues collected during any month from this~~  
29 ~~additional tax shall be deposited in the state general fund by the~~  
30 ~~twenty fifth day of the following month.~~

31 ~~((3) An additional tax is imposed upon the sale, use, consumption,~~  
32 ~~handling, possession, or distribution of all cigarettes, in an amount~~  
33 ~~equal to two and five one hundredths cents per cigarette. All revenues~~  
34 ~~collected during any month from this additional tax shall be deposited~~

1 ~~in the state general fund by the twenty-fifth day of the following~~  
2 ~~month.~~

3 ~~(4))~~ Wholesalers subject to the payment of this tax may, if they  
4 wish, absorb five one-hundredths cents per cigarette of the tax and not  
5 pass it on to purchasers without being in violation of this section or  
6 any other act relating to the sale or taxation of cigarettes.

7 ~~((5))~~ (3) For purposes of this chapter, "possession" ~~((shall))~~  
8 means both (a) physical possession by the purchaser and, (b) when  
9 cigarettes are being transported to or held for the purchaser or his or  
10 her designee by a person other than the purchaser, constructive  
11 possession by the purchaser or his or her designee, which constructive  
12 possession ~~((shall-be))~~ is deemed to occur at the location of the  
13 cigarettes being so transported or held.

14 ~~((6))~~ (4) In accordance with federal law and rules prescribed by  
15 the department, an enrolled member of a federally recognized Indian  
16 tribe may purchase cigarettes from an Indian tribal organization under  
17 the jurisdiction of the member's tribe for the member's own use exempt  
18 from the applicable taxes imposed by this chapter. Except as provided  
19 in subsection ~~((7))~~ (5) of this section, any person, who purchases  
20 cigarettes from an Indian tribal organization and who is not an  
21 enrolled member of the federally recognized Indian tribe within whose  
22 jurisdiction the sale takes place, is not exempt from the applicable  
23 taxes imposed by this chapter.

24 ~~((7))~~ (5) If the state enters into a cigarette tax contract or  
25 agreement with a federally recognized Indian tribe under chapter 43.06  
26 RCW, the terms of the contract or agreement ~~((shall))~~ take precedence  
27 over any conflicting provisions of this chapter while the contract or  
28 agreement is in effect.

29 **Sec. 1603.** RCW 82.24.026 and 2009 c 479 s 67 are each amended to  
30 read as follows:

31 (1) In addition to the tax imposed upon the sale, use, consumption,  
32 handling, possession, or distribution of cigarettes set forth in RCW  
33 82.24.020, there is imposed a tax in an amount equal to three cents per  
34 cigarette.

35 (2) The revenue collected under this section ~~((shall))~~ must be  
36 deposited as follows:

1 (a) ((28.5)) 14 percent ((shall)) must be deposited into the  
2 general fund.

3 (b) The remainder ((shall)) must be deposited into the education  
4 legacy trust account.

5 **Sec. 1604.** RCW 82.26.010 and 2005 c 180 s 2 are each amended to  
6 read as follows:

7 The definitions in this section apply throughout this chapter  
8 unless the context clearly requires otherwise.

9 (1) "Tobacco products" means cigars, cheroots, stogies, periques,  
10 granulated, plug cut, crimp cut, ready rubbed, and other smoking  
11 tobacco, snuff, snuff flour, cavendish, plug and twist tobacco, fine-  
12 cut and other chewing tobaccos, shorts, refuse scraps, clippings,  
13 cuttings and sweepings of tobacco, and other kinds and forms of  
14 tobacco, prepared in such manner as to be suitable for chewing or  
15 smoking in a pipe or otherwise, or both for chewing and smoking, and  
16 any other product, regardless of form, that contains tobacco and is  
17 intended for human consumption or placement in the oral or nasal cavity  
18 or absorption into the human body by any other means, but ((shall))  
19 does not include cigarettes as defined in RCW 82.24.010.

20 (2) "Manufacturer" means a person who manufactures and sells  
21 tobacco products.

22 (3) "Distributor" means (a) any person engaged in the business of  
23 selling tobacco products in this state who brings, or causes to be  
24 brought, into this state from without the state any tobacco products  
25 for sale, (b) any person who makes, manufactures, fabricates, or stores  
26 tobacco products in this state for sale in this state, (c) any person  
27 engaged in the business of selling tobacco products without this state  
28 who ships or transports tobacco products to retailers in this state, to  
29 be sold by those retailers, (d) any person engaged in the business of  
30 selling tobacco products in this state who handles for sale any tobacco  
31 products that are within this state but upon which tax has not been  
32 imposed.

33 (4) "Retailer" means any person engaged in the business of selling  
34 tobacco products to ultimate consumers.

35 (5)(a) "Sale" means any transfer, exchange, or barter, in any  
36 manner or by any means whatsoever, for a consideration, and includes  
37 and means all sales made by any person.

1 (b) The term "sale" includes a gift by a person engaged in the  
2 business of selling tobacco products, for advertising, promoting, or as  
3 a means of evading the provisions of this chapter.

4 (6) "Business" means any trade, occupation, activity, or enterprise  
5 engaged in for the purpose of selling or distributing tobacco products  
6 in this state.

7 (7) "Place of business" means any place where tobacco products are  
8 sold or where tobacco products are manufactured, stored, or kept for  
9 the purpose of sale, including any vessel, vehicle, airplane, train, or  
10 vending machine.

11 (8) "Retail outlet" means each place of business from which tobacco  
12 products are sold to consumers.

13 (9) "Department" means the department of revenue.

14 (10) "Person" means any individual, receiver, administrator,  
15 executor, assignee, trustee in bankruptcy, trust, estate, firm,  
16 copartnership, joint venture, club, company, joint stock company,  
17 business trust, municipal corporation, the state and its departments  
18 and institutions, political subdivision of the state of Washington,  
19 corporation, limited liability company, association, society, any group  
20 of individuals acting as a unit, whether mutual, cooperative,  
21 fraternal, nonprofit, or otherwise. The term excludes any person  
22 immune from state taxation, including the United States or its  
23 instrumentalities, and federally recognized Indian tribes and enrolled  
24 tribal members, conducting business within Indian country.

25 (11) "Indian country" means the same as defined in chapter 82.24  
26 RCW.

27 (12) "Actual price" means the total amount of consideration for  
28 which tobacco products are sold, valued in money, whether received in  
29 money or otherwise, including any charges by the seller necessary to  
30 complete the sale such as charges for delivery, freight,  
31 transportation, or handling.

32 (13) "Affiliated" means related in any way by virtue of any form or  
33 amount of common ownership, control, operation, or management.

34 (14) "Board" means the liquor control board.

35 (15) "Cigar" means a roll for smoking that is of any size or shape  
36 and that is made wholly or in part of tobacco, irrespective of whether  
37 the tobacco is pure or flavored, adulterated or mixed with any other

1 ingredient, if the roll has a wrapper made wholly or in greater part of  
2 tobacco. "Cigar" does not include a cigarette.

3 (16) "Cigarette" has the same meaning as in RCW 82.24.010.

4 (17) "Manufacturer's representative" means a person hired by a  
5 manufacturer to sell or distribute the manufacturer's tobacco products,  
6 and includes employees and independent contractors.

7 (18)(a) "Taxable sales price" means:

8 (i) In the case of a taxpayer that is not affiliated with the  
9 manufacturer, distributor, or other person from whom the taxpayer  
10 purchased tobacco products, the actual price for which the taxpayer  
11 purchased the tobacco products;

12 (ii) In the case of a taxpayer that purchases tobacco products from  
13 an affiliated manufacturer, affiliated distributor, or other affiliated  
14 person, and that sells those tobacco products to unaffiliated  
15 distributors, unaffiliated retailers, or ultimate consumers, the actual  
16 price for which that taxpayer sells those tobacco products to  
17 unaffiliated distributors, unaffiliated retailers, or ultimate  
18 consumers;

19 (iii) In the case of a taxpayer that sells tobacco products only to  
20 affiliated distributors or affiliated retailers, the price, determined  
21 as nearly as possible according to the actual price, that other  
22 distributors sell similar tobacco products of like quality and  
23 character to unaffiliated distributors, unaffiliated retailers, or  
24 ultimate consumers;

25 (iv) In the case of a taxpayer that is a manufacturer selling  
26 tobacco products directly to ultimate consumers, the actual price for  
27 which the taxpayer sells those tobacco products to ultimate consumers;

28 (v) In the case of a taxpayer that has acquired tobacco products  
29 under a sale as defined in subsection (5)(b) of this section, the  
30 price, determined as nearly as possible according to the actual price,  
31 that the taxpayer or other distributors sell the same tobacco products  
32 or similar tobacco products of like quality and character to  
33 unaffiliated distributors, unaffiliated retailers, or ultimate  
34 consumers; or

35 (vi) In any case where (a)(i) through (v) of this subsection do not  
36 apply, the price, determined as nearly as possible according to the  
37 actual price, that the taxpayer or other distributors sell the same

1 tobacco products or similar tobacco products of like quality and  
2 character to unaffiliated distributors, unaffiliated retailers, or  
3 ultimate consumers.

4 (b) For purposes of (a)(i) and (ii) of this subsection only,  
5 "person" includes both persons as defined in subsection (10) of this  
6 section and any person immune from state taxation, including the United  
7 States or its instrumentalities, and federally recognized Indian tribes  
8 and enrolled tribal members, conducting business within Indian country.

9 (c) The department may adopt rules regarding the determination of  
10 taxable sales price under this subsection.

11 (19) "Taxpayer" means a person liable for the tax imposed by this  
12 chapter.

13 (20) "Unaffiliated distributor" means a distributor that is not  
14 affiliated with the manufacturer, distributor, or other person from  
15 whom the distributor has purchased tobacco products.

16 (21) "Unaffiliated retailer" means a retailer that is not  
17 affiliated with the manufacturer, distributor, or other person from  
18 whom the retailer has purchased tobacco products.

19 (22) "Moist snuff" means tobacco that is finely cut, ground, or  
20 powdered; is not for smoking; and is intended to be placed in the oral,  
21 but not the nasal, cavity.

22 (23) "Little cigar" means a cigar that has a cellulose acetate  
23 filter.

24 **Sec. 1605.** RCW 82.26.020 and 2009 c 479 s 70 are each amended to  
25 read as follows:

26 (1) There is levied and ~~((there shall be))~~ collected a tax upon the  
27 sale, handling, or distribution of all tobacco products in this state  
28 at the following rate:

29 (a) ~~((Seventy-five))~~ For cigars except little cigars, ninety-five  
30 percent of the taxable sales price of cigars, not to exceed ((fifty))  
31 sixty-five cents per cigar; ((or))

32 (b) ~~((Seventy-five))~~ For all tobacco products except those covered  
33 under separate provisions of this subsection, ninety-five percent of  
34 the taxable sales price ((of all tobacco products that are not  
35 cigars));

36 (c) For moist snuff, as established in this subsection (1)(c) and  
37 computed on the net weight listed by the manufacturer:

1        (i) On each single unit consumer-sized can or package whose net  
2 weight is one and two-tenths ounces or less, a rate per single unit  
3 that is equal to the greater of 3.025 dollars or the cigarette tax  
4 under chapter 82.24 RCW multiplied by twenty; or

5        (ii) On each single unit consumer-sized can or package whose net  
6 weight is more than one and two-tenths ounces, a proportionate tax at  
7 the rate established in (c)(i) of this subsection (1) on each ounce or  
8 fractional part of an ounce; and

9        (d) For little cigars, an amount per cigar equal to the cigarette  
10 tax under chapter 82.24 RCW.

11        (2) Taxes under this section (~~((shall))~~) must be imposed at the time  
12 the distributor (a) brings, or causes to be brought, into this state  
13 from without the state tobacco products for sale, (b) makes,  
14 manufactures, fabricates, or stores tobacco products in this state for  
15 sale in this state, (c) ships or transports tobacco products to  
16 retailers in this state, to be sold by those retailers, or (d) handles  
17 for sale any tobacco products that are within this state but upon which  
18 tax has not been imposed.

19        (3) The moneys collected under this section (~~((shall))~~) must be  
20 deposited into the state general fund.

21        **NEW SECTION. Sec. 1606.** A new section is added to chapter 82.26  
22 RCW to read as follows:

23        (1)(a) Within one year following the date on which the requirement  
24 for a tobacco product code is effective, payment of, or exemption from,  
25 the tax imposed in RCW 82.26.020 must be verifiable on each single-unit  
26 consumer-sized can or package of moist snuff, as provided in (b) of  
27 this subsection.

28        (b) Within thirty days following the date on which notice of  
29 proposed rule making to require a tobacco product code is published in  
30 the federal register, the department must commence to develop a method  
31 for using a tobacco product code to verify payment of, or exemption  
32 from, the tax imposed in RCW 82.26.020; to develop and implement a  
33 pilot project to test the method; and to develop a plan for adoption of  
34 rules to implement the method. The department must report to the  
35 legislature on its progress annually by December 1st through the year  
36 following the year in which the method is implemented.



1 (2) If notice of proposed rule making to require a tobacco product  
2 code is not published in the federal register by July 1, 2011, the  
3 department must determine and recommend to the legislature by November  
4 1, 2014, a method to verify payment of, or exemption from, the tax  
5 imposed in RCW 82.26.020, by means of stamping, use of manufacturers'  
6 digitally readable product identifiers, or any other method, and must  
7 complete and present to the legislature a study of compliance with the  
8 tax imposed in RCW 82.26.020, the effect of noncompliance on state  
9 revenue, and the effect of adopting a method to verify payment of, or  
10 exemption from, the tax.

11 (3) For purposes of this section, "tobacco product code" means a  
12 code that is required on the label of a tobacco product for purposes of  
13 tracking or tracing the product through the distribution system under  
14 final regulations adopted by the secretary of the United States  
15 department of health and human services.

16 **Sec. 1607.** RCW 82.26.030 and 2005 c 180 s 1 are each amended to  
17 read as follows:

18 It is the intent and purpose of this chapter to levy a tax on all  
19 tobacco products sold, used, consumed, handled, or distributed within  
20 this state and to collect the tax from the distributor as defined in  
21 RCW 82.26.010. It is the further intent and purpose of this chapter to  
22 impose the tax once, and only once, on all tobacco products for sale in  
23 this state, but nothing in this chapter (~~((shall))~~) may be construed to  
24 exempt any person taxable under any other law or under any other tax  
25 imposed under Title 82 RCW. It is the further intent and purpose of  
26 this chapter that the distributor who first possesses the tobacco  
27 product in this state (~~((shall-be))~~) is the distributor liable for the  
28 tax and that (1) for moist snuff the tax will be based on the net  
29 weight listed by the manufacturer and (2) in most other instances the  
30 tax will be based on the actual price that the distributor paid for the  
31 tobacco product, unless the distributor is affiliated with the seller.

32 NEW SECTION. **Sec. 1608.** The following acts or parts of acts are  
33 each repealed:

34 (1) RCW 82.24.027 (Additional tax imposed--Rate--Deposited into the  
35 general fund) and 2009 c 479 s 68, 2008 c 86 s 303, 1999 c 309 s 925,  
36 & 1986 c 3 s 12; and

(2) RCW 82.24.028 (Additional tax imposed--Rate--Deposited into the general fund) and 2009 c 479 s 69, 2008 c 86 s 304, & 2002 c 2 s 3.

## PART XVII

### Rural County Tax Incentive Programs

**Sec. 1701.** RCW 82.60.010 and 1985 c 232 s 1 are each amended to read as follows:

The legislature finds that there are several areas in the state that are characterized by very high levels of unemployment and poverty. The ~~((legislative--{legislature}))~~ legislature further finds that economic stagnation is the primary cause of this high unemployment rate and poverty; that new state policies are necessary in order to promote economic stimulation and new employment opportunities in these distressed areas; and that policies providing incentives for economic growth in these distressed areas are essential. For these reasons, the legislature ~~((hereby))~~ reestablishes a tax deferral program to be effective solely in distressed ~~((areas and under circumstances where the deferred tax payments are for investments or costs that result in the creation of a specified number of jobs))~~ counties. The legislature declares that this limited program serves the vital public purpose of creating employment opportunities and reducing poverty in the distressed ~~((areas))~~ counties of the state.

**Sec. 1702.** RCW 82.60.020 and 2006 c 142 s 1 are each amended to read as follows:

Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter.

(1) "Applicant" means a person applying for a tax deferral under this chapter.

(2) "Department" means the department of revenue.

(3) "Distressed county" means a county that has an unemployment rate, as determined by the employment security department, which is at least twenty percent above the state average for the three calendar years immediately preceding the year in which the list of distressed counties is established or updated, as the case may be, as provided in section 1703 of this act.

(4) "Eligible area" means:

1       (a) Through June 30, 2010, a rural county as defined in RCW  
2 82.14.370; and

3       (b) Beginning July 1, 2010, a distressed county.

4       ~~((4))~~ (5)(a) "Eligible investment project" means an investment  
5 project that is located, as of the date the application required by RCW  
6 82.60.030 is received by the department, in an eligible area as defined  
7 in subsection ((3)) (4) of this section.

8       (b) ~~((The lessor or owner of a qualified building is not eligible~~  
9 ~~for a deferral unless:~~

10       ~~(i) The underlying ownership of the buildings, machinery, and~~  
11 ~~equipment vests exclusively in the same person; or~~

12       ~~(ii)(A) The lessor by written contract agrees to pass the economic~~  
13 ~~benefit of the deferral to the lessee;~~

14       ~~(B) The lessee that receives the economic benefit of the deferral~~  
15 ~~agrees in writing with the department to complete the annual survey~~  
16 ~~required under RCW 82.60.070; and~~

17       ~~(C) The economic benefit of the deferral passed to the lessee is no~~  
18 ~~less than the amount of tax deferred by the lessor and is evidenced by~~  
19 ~~written documentation of any type of payment, credit, or other~~  
20 ~~financial arrangement between the lessor or owner of the qualified~~  
21 ~~building and the lessee.~~

22       ~~(e))~~ "Eligible investment project" does not include any portion of  
23 an investment project undertaken by a light and power business as  
24 defined in RCW 82.16.010~~((5))~~ (4), other than that portion of a  
25 cogeneration project that is used to generate power for consumption  
26 within the manufacturing site of which the cogeneration project is an  
27 integral part, or investment projects ~~((which))~~ that have already  
28 received deferrals under this chapter.

29       ~~((5))~~ (6) "Initiation of construction" has the same meaning as in  
30 RCW 82.63.010.

31       (7) "Investment project" means an investment in qualified buildings  
32 or qualified machinery and equipment, including labor and services  
33 rendered in the planning, installation, and construction of the  
34 project.

35       ~~((6))~~ (8) "Manufacturing" means the same as defined in RCW  
36 82.04.120. "Manufacturing" also includes:

37       (a) Before July 1, 2010: (i) Computer programming, the production  
38 of computer software, and other computer-related services, but only

1 when the computer programming, production of computer software, or  
2 other computer-related services are performed by a manufacturer as  
3 defined in RCW 82.04.110 and contribute to the production of a new,  
4 different, or useful substance or article of tangible personal property  
5 for sale; (ii) the activities performed by research and development  
6 laboratories and commercial testing laboratories((7)); and (iii) the  
7 conditioning of vegetable seeds; and

8 (b) Beginning July 1, 2010: (i) The activities performed by  
9 research and development laboratories and commercial testing  
10 laboratories; and (ii) the conditioning of vegetable seeds.

11 ((+7)) (9) "Person" has the meaning given in RCW 82.04.030.

12 ((+8)) (10) "Qualified buildings" means construction of new  
13 structures, and expansion or renovation of existing structures for the  
14 purpose of increasing floor space or production capacity used for  
15 manufacturing ((and)) or research and development activities, including  
16 plant offices and warehouses or other facilities for the storage of raw  
17 material or finished goods if such facilities are an essential or an  
18 integral part of a factory, mill, plant, or laboratory used for  
19 manufacturing or research and development. If a building is used  
20 partly for manufacturing or research and development and partly for  
21 other purposes, the applicable tax deferral ((shall)) must be  
22 determined by apportionment of the costs of construction under rules  
23 adopted by the department.

24 ((+9)) (11) "Qualified employment position" means a permanent  
25 full-time employee employed in the eligible investment project during  
26 the entire tax year. The term "entire tax year" means a full-time  
27 position that is filled for a period of twelve consecutive months. The  
28 term "full-time" means at least thirty-five hours a week, four hundred  
29 fifty-five hours a quarter, or one thousand eight hundred twenty hours  
30 a year.

31 ((+10)) (12) "Qualified machinery and equipment" means all new  
32 industrial and research fixtures, equipment, and support facilities  
33 that are an integral and necessary part of a manufacturing or research  
34 and development operation. "Qualified machinery and equipment"  
35 includes: Computers; software; data processing equipment; laboratory  
36 equipment; manufacturing components such as belts, pulleys, shafts, and  
37 moving parts; molds, tools, and dies; operating structures; and all  
38 equipment used to control or operate the machinery.

1       (~~((11))~~) (13) "Recipient" means a person receiving a tax deferral  
2 under this chapter.

3       (~~((12))~~) (14) "Research and development" means the development,  
4 refinement, testing, marketing, and commercialization of a product,  
5 service, or process before commercial sales have begun, but only when  
6 such activities are intended to ultimately result in the production of  
7 a new, different, or useful substance or article of tangible personal  
8 property for sale. As used in this subsection, "commercial sales"  
9 excludes sales of prototypes or sales for market testing if the total  
10 gross receipts from such sales of the product, service, or process do  
11 not exceed one million dollars.

12       NEW SECTION. Sec. 1703. A new section is added to chapter 82.60  
13 RCW to read as follows:

14       The department, with the assistance of the employment security  
15 department, must establish a list of distressed counties effective July  
16 1, 2010. The list of distressed counties is effective for a twenty-  
17 four month period and must be updated by July 1st of the year that is  
18 two calendar years after the list was established or last updated, as  
19 the case may be.

20       NEW SECTION. Sec. 1704. A new section is added to chapter 82.60  
21 RCW to read as follows:

22       The lessor or owner of a qualified building is not eligible for a  
23 deferral unless:

24       (1) The underlying ownership of the buildings, machinery, and  
25 equipment vests exclusively in the same person; or

26       (2)(a) The lessor by written contract agrees to pass the economic  
27 benefit of the deferral to the lessee;

28       (b) The lessee that receives the economic benefit of the deferral  
29 agrees in writing with the department to complete the annual survey  
30 required under RCW 82.60.070; and

31       (c) The economic benefit of the deferral passed to the lessee is no  
32 less than the amount of tax deferred by the lessor and is evidenced by  
33 written documentation of any type of payment, credit, or other  
34 financial arrangement between the lessor or owner of the qualified  
35 building and the lessee.

1       **Sec. 1705.** RCW 82.60.030 and 1994 sp.s. c 1 s 2 are each amended  
2 to read as follows:

3       (1) Application for deferral of taxes under this chapter must be  
4 made before initiation of the construction of the investment project or  
5 acquisition of equipment or machinery. The application (~~((shall))~~) must  
6 be made to the department in a form and manner prescribed by the  
7 department. The application (~~((shall))~~) must contain information  
8 regarding the location of the investment project, the applicant's  
9 average employment in the state for the prior year, estimated or actual  
10 new employment related to the project, estimated or actual new  
11 employment available for the local work force, estimated or actual  
12 reductions in local unemployment, estimated or actual wages of  
13 employees related to the project, estimated or actual costs, time  
14 schedules for completion and operation, and other information required  
15 by the department. The department (~~((shall))~~) must rule on the  
16 application within sixty days.

17       (2) This section expires July 1, 2020.

18       **Sec. 1706.** RCW 82.60.040 and 2004 c 25 s 4 are each amended to  
19 read as follows:

20       (1) The department (~~((shall))~~) must issue a sales and use tax  
21 deferral certificate for state and local sales and use taxes due under  
22 chapters 82.08, 82.12, and 82.14 RCW on each eligible investment  
23 project (~~((that is located in an eligible area as defined in RCW~~  
24 ~~82.60.020))~~).

25       (2) The department (~~((shall))~~) must keep a running total of all  
26 deferrals granted under this chapter during each fiscal biennium.

27       (3) This section expires July 1, (~~((2010))~~) 2020.

28       **Sec. 1707.** RCW 82.60.049 and 2004 c 25 s 5 are each amended to  
29 read as follows:

30       (1) For the purposes of this section:

31       (a) "Eligible area" also means: Through June 30, 2010, a  
32 designated community empowerment zone approved under RCW 43.31C.020 or  
33 a county containing a community empowerment zone; and beginning July 1,  
34 2010, a designated community empowerment zone approved under RCW  
35 43.31C.020.

1 (b) "Eligible investment project" also means an investment project  
2 in an eligible area as defined in this section.

3 (2) In addition to the provisions of RCW 82.60.040, the department  
4 (~~shall~~) must issue a sales and use tax deferral certificate for state  
5 and local sales and use taxes due under chapters 82.08, 82.12, and  
6 82.14 RCW, on each eligible investment project that is located in an  
7 eligible area, if the applicant establishes that at the time the  
8 project is operationally complete:

9 (a) The applicant will hire at least one qualified employment  
10 position for each seven hundred fifty thousand dollars of investment  
11 for which a deferral is requested; and

12 (b) The positions will be filled by persons who at the time of hire  
13 are residents of the community empowerment zone. As used in this  
14 subsection, "resident" means the person makes his or her home in the  
15 community empowerment zone. A mailing address alone is insufficient to  
16 establish that a person is a resident for the purposes of this section.  
17 The persons must be hired after the date the application is filed with  
18 the department.

19 (3) All other provisions and eligibility requirements of this  
20 chapter apply to applicants eligible under this section.

21 (4) The qualified employment position must be filled by the end of  
22 the calendar year following the year in which the project is certified  
23 as operationally complete. If a person does not meet the requirements  
24 for qualified employment positions by the end of the second calendar  
25 year following the year in which the project is certified as  
26 operationally complete, all deferred taxes are immediately due.

27 **Sec. 1708.** RCW 82.60.060 and 2000 c 106 s 5 are each amended to  
28 read as follows:

29 (1) The recipient (~~shall~~) must begin paying the deferred taxes in  
30 the third year after the date certified by the department as the date  
31 on which the (~~construction~~) investment project has been operationally  
32 completed. The first payment will be due on December 31st of the third  
33 calendar year after such certified date, with subsequent annual  
34 payments due on December 31st of the following four years with amounts  
35 of payment scheduled as follows:

|   | Repayment Year | % of Deferred Tax Repaid |
|---|----------------|--------------------------|
| 1 |                |                          |
| 2 | 1              | 10%                      |
| 3 | 2              | 15%                      |
| 4 | 3              | 20%                      |
| 5 | 4              | 25%                      |
| 6 | 5              | 30%                      |

(2) The department may authorize an accelerated repayment schedule upon request of the recipient.

(3) Interest (~~((shall))~~) may not be charged on any taxes deferred under this chapter for the period of deferral, although all other penalties and interest applicable to delinquent excise taxes may be assessed and imposed for delinquent payments under this chapter. The debt for deferred taxes will not be extinguished by insolvency or other failure of the recipient. Transfer of ownership does not terminate the deferral. The deferral is transferred, subject to the successor meeting the eligibility requirements of this chapter, for the remaining periods of the deferral.

**Sec. 1709.** RCW 82.60.070 and 2004 c 25 s 7 are each amended to read as follows:

(1)(a) The legislature finds that accountability and effectiveness are important aspects of setting tax policy. In order to make policy choices regarding the best use of limited state resources the legislature needs information on how a tax incentive is used.

(b) Each recipient of a deferral granted under this chapter after June 30, 1994, (~~((shall))~~) must complete an annual survey. If the economic benefits of the deferral are passed to a lessee as provided in (~~((RCW 82.60.020(4)))~~) section 1704 of this act, the lessee (~~((shall agree to))~~) must complete the annual survey and the applicant is not required to complete the annual survey. The survey is due by March 31st of the year following the calendar year in which the investment project is certified by the department as having been operationally complete and the seven succeeding calendar years. The survey (~~((shall))~~) must include the amount of tax deferred, the number of new products or research projects by general classification, and the number of trademarks,



1 patents, and copyrights associated with activities at the investment  
2 project. The survey (~~((shall))~~) must also include the following  
3 information for employment positions in Washington:

4 (i) The number of total employment positions;

5 (ii) Full-time, part-time, and temporary employment positions as a  
6 percent of total employment;

7 (iii) The number of employment positions according to the following  
8 wage bands: Less than thirty thousand dollars; thirty thousand dollars  
9 or greater, but less than sixty thousand dollars; and sixty thousand  
10 dollars or greater. A wage band containing fewer than three  
11 individuals may be combined with another wage band; and

12 (iv) The number of employment positions that have employer-provided  
13 medical, dental, and retirement benefits, by each of the wage bands.

14 (c) As part of the survey, the department may request additional  
15 information necessary to measure the results of, or determine  
16 eligibility for, the deferral program, to be submitted at the same time  
17 as the survey.

18 (d) All information collected under this subsection, except the  
19 amount of the tax deferral taken, is deemed taxpayer information under  
20 RCW 82.32.330 and is not disclosable. Information on the amount of tax  
21 deferral taken is not subject to the confidentiality provisions of RCW  
22 82.32.330 and may be disclosed to the public upon request.

23 (e) The department (~~((shall))~~) must use the information from this  
24 section to prepare summary descriptive statistics by category. No  
25 fewer than three taxpayers (~~((shall))~~) may be included in any category.  
26 The department (~~((shall))~~) must report these statistics to the  
27 legislature each year by September 1st.

28 (f) The department (~~((shall))~~) must also use the information to study  
29 the tax deferral program authorized under this chapter. The department  
30 (~~((shall))~~) must report to the legislature by December 1, (~~((2009))~~) 2019.  
31 The report (~~((shall))~~) must measure the effect of the program on job  
32 creation, the number of jobs created for residents of eligible areas,  
33 company growth, the introduction of new products, the diversification  
34 of the state's economy, growth in research and development investment,  
35 the movement of firms or the consolidation of firms' operations into  
36 the state, and such other factors as the department selects.

37 (2)(a) If, on the basis of a survey under this section or other

1 information, the department finds that an investment project is not  
2 eligible for tax deferral under this chapter, the amount of deferred  
3 taxes outstanding for the project (~~((shall be immediately due))~~).

4 (b) If a recipient of the deferral fails to complete the annual  
5 survey required under subsection (1) of this section by the date due,  
6 twelve and one-half percent of the deferred tax (~~((shall))~~) will be  
7 immediately due. If the economic benefits of the deferral are passed  
8 to a lessee as provided in (~~((RCW 82.60.020(4)))~~) section 1704 of this  
9 act, the lessee (~~((shall be))~~) is responsible for payment to the extent  
10 the lessee has received the economic benefit.

11 (3) Notwithstanding any other subsection of this section, deferred  
12 taxes need not be repaid on machinery and equipment for lumber and wood  
13 products industries, and sales of or charges made for labor and  
14 services, of the type which qualifies for exemption under RCW  
15 82.08.02565 or 82.12.02565 to the extent the taxes have not been repaid  
16 before July 1, 1995.

17 (4) Notwithstanding any other subsection of this section, deferred  
18 taxes on the following need not be repaid:

19 (a) Machinery and equipment, and sales of or charges made for labor  
20 and services, which at the time of purchase would have qualified for  
21 exemption under RCW 82.08.02565; and

22 (b) Machinery and equipment which at the time of first use would  
23 have qualified for exemption under RCW 82.12.02565.

24 **Sec. 1710.** RCW 82.32.600 and 2009 c 461 s 8 are each amended to  
25 read as follows:

26 (1) Persons required to file annual surveys or annual reports under  
27 RCW 82.04.4452, 82.32.5351, 82.32.545, 82.32.610, 82.32.630, 82.82.020,  
28 82.32.632, 82.60.070, or 82.74.040 must electronically file with the  
29 department all surveys, reports, returns, and any other forms or  
30 information the department requires in an electronic format as provided  
31 or approved by the department. As used in this section, "returns" has  
32 the same meaning as "return" in RCW 82.32.050.

33 (2) Any survey, report, return, or any other form or information  
34 required to be filed in an electronic format under subsection (1) of  
35 this section is not filed until received by the department in an  
36 electronic format.

(3) The department may waive the electronic filing requirement in subsection (1) of this section for good cause shown.

**Sec. 1711.** RCW 82.60.100 and 1987 c 49 s 1 are each amended to read as follows:

Applications, reports, and any other information received by the department under this chapter ~~((shall))~~, except applications not approved by the department, are not ~~((be))~~ confidential and ~~((shall be))~~ are subject to disclosure.

**Sec. 1712.** RCW 82.62.010 and 2007 c 485 s 1 are each amended to read as follows:

Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter.

(1) "Applicant" means a person applying for a tax credit under this chapter.

(2) "Department" means the department of revenue.

(3) "Eligible area" means ~~((an area))~~ a "rural county" as defined in RCW ~~((82.60.020))~~ 82.14.370.

(4)(a) "Eligible business project" means manufacturing or research and development activities which are conducted by an applicant in an eligible area at a specific facility, provided the applicant's average qualified employment positions at the specific facility will be at least fifteen percent greater in the four consecutive full calendar quarters after the calendar quarter during which the first qualified employment position is filled than the applicant's average qualified employment positions at the same facility in the four consecutive full calendar quarters immediately preceding the calendar quarter during which the first qualified employment position is filled.

(b) "Eligible business project" does not include any portion of a business project undertaken by a light and power business as defined in RCW 82.16.010~~((+5))~~ (4) or that portion of a business project creating qualified full-time employment positions outside an eligible area.

(5) "First qualified employment position" means the first qualified employment position filled for which a credit under this chapter is sought.

(6) "Manufacturing" means the same as defined in RCW 82.04.120. "Manufacturing" also includes:

1        (a) Before July 1, 2010: (i) Computer programming, the production  
2 of computer software, and other computer-related services, but only  
3 when the computer programming, production of computer software, or  
4 other computer-related services are performed by a manufacturer as  
5 defined in RCW 82.04.110 and contribute to the production of a new,  
6 different, or useful substance or article of tangible personal property  
7 for sale; and (ii) the activities performed by research and development  
8 laboratories and commercial testing laboratories; and

9        (b) Beginning July 1, 2010, the activities performed by research  
10 and development laboratories and commercial testing laboratories.

11        (7) "Person" has the meaning given in RCW 82.04.030.

12        (8)(a)(i) "Qualified employment position" means a permanent full-  
13 time employee employed in the eligible business project during four  
14 consecutive full calendar quarters.

15        (ii) For seasonal employers, "qualified employment position" also  
16 includes the equivalent of a full-time employee in work hours for four  
17 consecutive full calendar quarters.

18        (b) For purposes of this subsection, "full time" means a normal  
19 work week of at least thirty-five hours.

20        (c) Once a permanent, full-time employee has been employed, a  
21 position does not cease to be a qualified employment position solely  
22 due to periods in which the position goes vacant, as long as:

23        (i) The cumulative period of any vacancies in that position is not  
24 more than one hundred twenty days in the four-quarter period; and

25        (ii) During a vacancy, the employer is training or actively  
26 recruiting a replacement permanent, full-time employee for the  
27 position.

28        (9) "Recipient" means a person receiving tax credits under this  
29 chapter.

30        (10) "Research and development" means the development, refinement,  
31 testing, marketing, and commercialization of a product, service, or  
32 process before commercial sales have begun, but only when such  
33 activities are intended to ultimately result in the production of a  
34 new, different, or useful substance or article of tangible personal  
35 property for sale. As used in this subsection, "commercial sales"  
36 excludes sales of prototypes or sales for market testing if the total  
37 gross receipts from such sales of the product, service, or process do  
38 not exceed one million dollars.

(11) "Seasonal employee" means an employee of a seasonal employer who works on a seasonal basis. For the purposes of this subsection and subsection (12) of this section, "seasonal basis" means a continuous employment period of less than twelve consecutive months.

(12) "Seasonal employer" means a person who regularly hires more than fifty percent of its employees to work on a seasonal basis.

NEW SECTION. **Sec. 1713.** RCW 82.60.900 and 82.60.901 are each decodified.

NEW SECTION. **Sec. 1714.** The following acts or parts of acts are each repealed:

(1) RCW 82.60.050 (Expiration of RCW 82.60.030 and 82.60.040) and 2004 c 25 s 6, 1994 sp.s. c 1 s 7, 1993 sp.s. c 25 s 404, 1988 c 41 s 5, & 1985 c 232 s 10; and

(2) RCW 82.60.110 (Competing projects--Impact study) and 1998 c 245 s 169 & 1994 sp.s. c 1 s 8.

NEW SECTION. **Sec. 1715.** The amendments to the definitions of "manufacturing" and "research and development" in sections 1702 and 1712 of this act apply retroactively as well as prospectively.

## **PART XVIII**

### **PUD Privilege Tax Clarification**

**Sec. 1801.** RCW 54.28.011 and 1957 c 278 s 12 are each amended to read as follows:

"Gross revenue" (~~((shall))~~) means the amount received from the sale of electric energy, which also includes any regularly recurring charge billed to consumers as a condition of receiving electric energy, and excluding any tax levied by a municipal corporation upon the district pursuant to RCW 54.28.070.

## **PART XIX**

### **Business and Occupation Surtax on Certain Services**

NEW SECTION. **Sec. 1901.** In order to preserve education funding, it is the legislature's intent to use revenue generated from increasing

1 the business and occupation tax on certain business activities to  
2 support basic education including levy equalization and dropout  
3 prevention programs.

4 NEW SECTION. **Sec. 1902.** A new section is added to chapter 82.04  
5 RCW to read as follows:

6 (1) There is levied and collected for the period July 1, 2010,  
7 through June 30, 2013, from every person for the act or privilege of  
8 engaging in any business activity defined as a selected business  
9 service, an additional tax equal to the gross income of the business  
10 from such activity multiplied by the rate of 0.5 percent.

11 (2) For the purpose of this section, "selected business service"  
12 means:

13 (a) Accounting, auditing, tax preparation, bookkeeping, payroll,  
14 and other related services.

15 (b) Agent and management services for artists, athletes,  
16 entertainers, and other public figures.

17 (c) Attorney services, paralegal services, arbitration and  
18 conciliation services, mediation product services, legal research  
19 services, and court reporting services.

20 (d) Business support services including but not limited to:  
21 Document preparation services, telephone call telephone answering  
22 services, telemarketing services, debt collection services,  
23 repossession services, and court reporting and stenotype services.

24 (e) Computer systems design and related services including but not  
25 limited to: Computer systems design services, computer facilities  
26 management services, other computer facilities management services, and  
27 other computer related services (such as computer disaster recovery  
28 services and software installation services). Computer systems design  
29 and related services does not include custom computer programming  
30 services.

31 (f) Data processing, hosting, and related services including but  
32 not limited to: Application hosting services, application service  
33 provider services, automated data processing services, computer input  
34 preparation services, computer time rental services, data entry  
35 services, media streaming services, optical scanning services, and web  
36 hosting services.

37 (g) Facilities support services.

1 (h) Investment advice services including but not limited to:  
2 Financial investment advice services, financial planning services,  
3 investment advice consulting services, and investment advisory  
4 services.

5 (i) Management, scientific, and technical consulting services  
6 including but not limited to: Administrative management and general  
7 management services (such as business consulting services, medical  
8 office management services, site location consulting services,  
9 strategic planning consulting services, and financial management  
10 consulting services), human resources consulting services (such as  
11 actuarial consulting services, benefit consulting services, employee  
12 benefit consulting services, human resource consulting services, labor  
13 relations consulting services, and personnel management consulting  
14 services), marketing consulting services (such as customer service  
15 management consulting services, marketing consulting services, and  
16 sales management consulting services), process, physical distribution,  
17 and logistics consulting services (such as efficiency management  
18 consulting services, freight traffic consulting services, inventory  
19 planning and control management consulting services, operations  
20 research consulting services, and transportation management consulting  
21 services), environmental consulting services (such as sanitation  
22 consulting services and site remediation services), and other  
23 scientific and technical consulting services (such as agricultural  
24 consulting services, chemical consulting services, economic consulting  
25 services, energy consulting services, hydrology consulting services,  
26 livestock breeding consulting services, and security consulting  
27 services).

28 (j) Marketing research and public opinion polling services.

29 (k) Office administrative services including but not limited to:  
30 Business management services, executive management services, hotel  
31 management services, and office management services.

32 (l) Parking lot management services.

33 (m) Promoting services for performing arts, sporting, and similar  
34 events.

35 (n) Public relations services including but not limited to:  
36 Lobbying services, political consulting services, and other public  
37 relations consulting services.

1 (o) Scientific research and development services including but not  
2 limited to research and development in the physical, engineering, and  
3 life sciences (such as agriculture, bacteriological, biotechnology,  
4 chemical, life sciences, and physical science research and development  
5 laboratories or services) and research and development in the social  
6 sciences and humanities (such as archaeological, behavioral, cognitive,  
7 economic, language, and learning research or development services).

8 (p) Software publishing support services.

9 (q) The following professional, scientific, and technical services  
10 not otherwise included within the definition of selected business  
11 service: Business brokers except real estate brokers, commodity  
12 inspection services, consumer credit counseling services, consumer  
13 credit repair services, estate assessment services, handwriting  
14 analysis services, handwriting expert services, marine surveyor  
15 services, meteorological services, outplacement services, patent broker  
16 services, electric transmission or gas line visual inspection services,  
17 pipeline inspection services, power line visual inspection services,  
18 quantity surveyor services, and weather forecasting services.

## 19 PART XX

### 20 Solar Energy Tax Incentives

21 **Sec. 2001.** RCW 82.04.294 and 2009 c 469 s 501 are each amended to  
22 read as follows:

23 ~~(1)((a)-Beginning-October-1,-2005,-upon-every-person-engaging~~  
24 ~~within this state in the business of manufacturing solar energy systems~~  
25 ~~using photovoltaic modules, or of manufacturing solar grade silicon to~~  
26 ~~be used exclusively in components of such systems; as to such persons~~  
27 ~~the amount of tax with respect to such business shall, in the case of~~  
28 ~~manufacturers, be equal to the value of the product manufactured, or in~~  
29 ~~the case of processors for hire, be equal to the gross income of the~~  
30 ~~business, multiplied by the rate of 0.2904 percent.~~

31 ~~(b)-Beginning-October-1, 2009,)~~ Upon every person engaging within  
32 this state in the business of manufacturing solar energy systems using  
33 photovoltaic modules or ~~stirling converters~~, or of manufacturing solar  
34 grade silicon, silicon solar wafers, silicon solar cells, thin film  
35 solar devices, or compound semiconductor solar wafers to be used  
36 exclusively in components of such systems; as to such persons the



1 amount of tax with respect to such business is, in the case of  
2 manufacturers, equal to the value of the product manufactured, or in  
3 the case of processors for hire, equal to the gross income of the  
4 business, multiplied by the rate of 0.275 percent.

5 ~~(2)((a) Beginning October 1, 2005, upon every person engaging~~  
6 ~~within this state in the business of making sales at wholesale of solar~~  
7 ~~energy systems using photovoltaic modules, or of solar grade silicon to~~  
8 ~~be used exclusively in components of such systems, manufactured by that~~  
9 ~~person; as to such persons the amount of tax with respect to such~~  
10 ~~business shall be equal to the gross proceeds of sales of the solar~~  
11 ~~energy systems using photovoltaic modules, or of the solar grade~~  
12 ~~silicon to be used exclusively in components of such systems,~~  
13 ~~multiplied by the rate of 0.2904 percent.~~

14 ~~(b) Beginning October 1, 2009,)~~ Upon every person engaging within  
15 this state in the business of making sales at wholesale of solar energy  
16 systems using photovoltaic modules or stirling converters, or of solar  
17 grade silicon, silicon solar wafers, silicon solar cells, thin film  
18 solar devices, or compound semiconductor solar wafers to be used  
19 exclusively in components of such systems, manufactured by that person;  
20 as to such persons the amount of tax with respect to such business is  
21 equal to the gross proceeds of sales of the solar energy systems using  
22 photovoltaic modules or stirling converters, or of the solar grade  
23 silicon to be used exclusively in components of such systems,  
24 multiplied by the rate of 0.275 percent.

25 (3) ~~((Beginning October 1, 2009,))~~ Silicon solar wafers, silicon  
26 solar cells, thin film solar devices, or compound semiconductor solar  
27 wafers are "semiconductor materials" for the purposes of RCW 82.08.9651  
28 and 82.12.9651.

29 (4) The definitions in this subsection apply throughout this  
30 section.

31 (a) "Compound semiconductor solar wafers" means a semiconductor  
32 solar wafer composed of elements from two or more different groups of  
33 the periodic table.

34 (b) "Module" means the smallest nondivisible self-contained  
35 physical structure housing interconnected photovoltaic cells and  
36 providing a single direct current electrical output.

37 (c) "Photovoltaic cell" means a device that converts light directly  
38 into electricity without moving parts.

(d) "Silicon solar cells" means a photovoltaic cell manufactured from a silicon solar wafer.

(e) "Silicon solar wafers" means a silicon wafer manufactured for solar conversion purposes.

(f) "Solar energy system" means any device or combination of devices or elements that rely upon direct sunlight as an energy source for use in the generation of electricity.

(g) "Solar grade silicon" means high-purity silicon used exclusively in components of solar energy systems using photovoltaic modules to capture direct sunlight. "Solar grade silicon" does not include silicon used in semiconductors.

(h) "Stirling converter" means a device that produces electricity by converting heat from a solar source utilizing a stirling engine.

(i) "Thin film solar devices" means a nonparticipating substrate on which various semiconducting materials are deposited to produce a photovoltaic cell that is used to generate electricity.

(5) This section expires June 30, 2014.

**Sec. 2002.** RCW 82.16.110 and 2009 c 469 s 504 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1)(a) "Community solar project" means:

(i) A solar energy system owned by local individuals, households, nonprofit organizations, or nonutility businesses that is placed on the property owned by a cooperating local governmental entity that is not in the light and power business or in the gas distribution business; or

(ii) A utility-owned solar energy system that is voluntarily funded by the utility's ratepayers where, in exchange for their financial support, the utility gives contributors a payment or credit on their utility bill for the value of the electricity produced by the project.

(b) For the purposes of "community solar project" as defined in (a) of this subsection:

(i) "Nonprofit organization" means an organization exempt from taxation under ((Title)) 26 U.S.C. Sec. 501(c)(3) of the federal internal revenue code of 1986, as amended, as of January 1, 2009; and

(ii) "Utility" means a light and power business, an electric cooperative, or a mutual corporation that provides electricity service.

1 (2) "Customer-generated electricity" means a community solar  
2 project or the alternating current electricity that is generated from  
3 a renewable energy system located on an individual's, businesses', or  
4 local government's real property that is also provided electricity  
5 generated by a light and power business. Except for community solar  
6 projects, a system located on a leasehold interest does not qualify  
7 under this definition. Except for community solar projects, "customer-  
8 generated electricity" does not include electricity generated by a  
9 light and power business with greater than one thousand megawatt hours  
10 of annual sales or a gas distribution business.

11 (3) "Economic development kilowatt-hour" means the actual kilowatt-  
12 hour measurement of customer-generated electricity multiplied by the  
13 appropriate economic development factor.

14 (4) "Local governmental entity" means any unit of local government  
15 of this state including, but not limited to, counties, cities, towns,  
16 municipal corporations, quasi-municipal corporations, special purpose  
17 districts, and school districts.

18 (5) "Photovoltaic cell" means a device that converts light directly  
19 into electricity without moving parts.

20 (6) "Renewable energy system" means a solar energy system, an  
21 anaerobic digester as defined in RCW 82.08.900, or a wind generator  
22 used for producing electricity.

23 (7) "Solar energy system" means any device or combination of  
24 devices or elements that rely upon direct sunlight as an energy source  
25 for use in the generation of electricity.

26 (8) "Solar inverter" means the device used to convert direct  
27 current to alternating current in a ((~~photovoltaic cell~~)) solar energy  
28 system.

29 (9) "Solar module" means the smallest nondivisible self-contained  
30 physical structure housing interconnected photovoltaic cells and  
31 providing a single direct current electrical output.

32 (10) "Stirling converter" means a device that produces electricity  
33 by converting heat from a solar source utilizing a stirling engine.

34 **Sec. 2003.** RCW 82.16.120 and 2009 c 469 s 505 are each amended to  
35 read as follows:

36 (1) Any individual, business, local governmental entity, not in the  
37 light and power business or in the gas distribution business, or a

1 participant in a community solar project may apply to the light and  
2 power business serving the situs of the system, each fiscal year  
3 beginning on July 1, 2005, for an investment cost recovery incentive  
4 for each kilowatt-hour from a customer-generated electricity renewable  
5 energy system. No incentive may be paid for kilowatt-hours generated  
6 before July 1, 2005, or after June 30, 2020.

7 (2)(a) Before submitting for the first time the application for the  
8 incentive allowed under subsection (4) of this section, the applicant  
9 must submit to the department of revenue and to the climate and rural  
10 energy development center at the Washington State University,  
11 established under RCW 28B.30.642, a certification in a form and manner  
12 prescribed by the department that includes, but is not limited to, the  
13 following information:

14 (i) The name and address of the applicant and location of the  
15 renewable energy system;

16 (ii) The applicant's tax registration number;

17 (iii) That the electricity produced by the applicant meets the  
18 definition of "customer-generated electricity" and that the renewable  
19 energy system produces electricity with:

20 (A) Any solar inverters and solar modules manufactured in  
21 Washington state;

22 (B) A wind generator powered by blades manufactured in Washington  
23 state;

24 (C) A solar inverter manufactured in Washington state;

25 (D) A solar module manufactured in Washington state; ((or))

26 (E) A stirling converter manufactured in Washington state; or

27 (F) Solar or wind equipment manufactured outside of Washington  
28 state;

29 (iv) That the electricity can be transformed or transmitted for  
30 entry into or operation in parallel with electricity transmission and  
31 distribution systems;

32 (v) The date that the renewable energy system received its final  
33 electrical permit from the applicable local jurisdiction.

34 (b) Within thirty days of receipt of the certification the  
35 department of revenue must notify the applicant by mail, or  
36 electronically as provided in RCW 82.32.135, whether the renewable  
37 energy system qualifies for an incentive under this section. The  
38 department may consult with the climate and rural energy development

center to determine eligibility for the incentive. System certifications and the information contained therein are subject to disclosure under RCW 82.32.330(3)(m).

(3)(a) By August 1st of each year application for the incentive (~~shall~~) must be made to the light and power business serving the situs of the system by certification in a form and manner prescribed by the department that includes, but is not limited to, the following information:

(i) The name and address of the applicant and location of the renewable energy system;

(ii) The applicant's tax registration number;

(iii) The date of the notification from the department of revenue stating that the renewable energy system is eligible for the incentives under this section;

(iv) A statement of the amount of kilowatt-hours generated by the renewable energy system in the prior fiscal year.

(b) Within sixty days of receipt of the incentive certification the light and power business serving the situs of the system (~~shall~~) must notify the applicant in writing whether the incentive payment will be authorized or denied. The business may consult with the climate and rural energy development center to determine eligibility for the incentive payment. Incentive certifications and the information contained therein are subject to disclosure under RCW 82.32.330(3)(m).

(c)(i) Persons receiving incentive payments (~~shall~~) must keep and preserve, for a period of five years, suitable records as may be necessary to determine the amount of incentive applied for and received. Such records (~~shall~~) must be open for examination at any time upon notice by the light and power business that made the payment or by the department. If upon examination of any records or from other information obtained by the business or department it appears that an incentive has been paid in an amount that exceeds the correct amount of incentive payable, the business may assess against the person for the amount found to have been paid in excess of the correct amount of incentive payable and (~~shall~~) must add thereto interest on the amount. Interest (~~shall-be~~) is assessed in the manner that the department assesses interest upon delinquent tax under RCW 82.32.050.

(ii) If it appears that the amount of incentive paid is less than

1 the correct amount of incentive payable the business may authorize  
2 additional payment.

3 (4) Except for community solar projects, the investment cost  
4 recovery incentive may be paid fifteen cents per economic development  
5 kilowatt-hour unless requests exceed the amount authorized for credit  
6 to the participating light and power business. For community solar  
7 projects, the investment cost recovery incentive may be paid thirty  
8 cents per economic development kilowatt-hour unless requests exceed the  
9 amount authorized for credit to the participating light and power  
10 business. For the purposes of this section, the rate paid for the  
11 investment cost recovery incentive may be multiplied by the following  
12 factors:

13 (a) For customer-generated electricity produced using solar modules  
14 manufactured in Washington state or a solar stirling converter  
15 manufactured in Washington state, two and four-tenths;

16 (b) For customer-generated electricity produced using a solar or a  
17 wind generator equipped with an inverter manufactured in Washington  
18 state, one and two-tenths;

19 (c) For customer-generated electricity produced using an anaerobic  
20 digester, or by other solar equipment or using a wind generator  
21 equipped with blades manufactured in Washington state, one; and

22 (d) For all other customer-generated electricity produced by wind,  
23 eight-tenths.

24 (5) No individual, household, business, or local governmental  
25 entity is eligible for incentives provided under subsection (4) of this  
26 section for more than five thousand dollars per year. Each applicant  
27 in a community solar project is eligible for up to five thousand  
28 dollars per year.

29 (6) If requests for the investment cost recovery incentive exceed  
30 the amount of funds available for credit to the participating light and  
31 power business, the incentive payments (~~shall~~) must be reduced  
32 proportionately.

33 (7) The climate and rural energy development center at Washington  
34 State University energy program may establish guidelines and standards  
35 for technologies that are identified as Washington manufactured and  
36 therefore most beneficial to the state's environment.

37 (8) The environmental attributes of the renewable energy system

1 belong to the applicant, and do not transfer to the state or the light  
2 and power business upon receipt of the investment cost recovery  
3 incentive.

#### 4 **PART XXI**

##### 5 **Sales and Use Tax Exemption for Investment Castings**

6 NEW SECTION. **Sec. 2101.** A new section is added to chapter 82.08  
7 RCW to read as follows:

8 (1) The tax levied by RCW 82.08.020 does not apply to sales of wax  
9 and ceramic materials used to create molds consumed during the process  
10 of creating ferrous and nonferrous investment castings used in  
11 industrial applications. The tax also does not apply to labor or  
12 services used to create wax patterns and ceramic shells used as molds  
13 and consumed during the process of creating ferrous and nonferrous  
14 investment castings used in industrial applications.

15 (2) A person claiming the exemption under this section must claim  
16 the exemption in a form and manner prescribed by the department.

17 (3) This section expires July 1, 2020.

18 NEW SECTION. **Sec. 2102.** A new section is added to chapter 82.12  
19 RCW to read as follows:

20 (1) The provisions of this chapter do not apply with respect to the  
21 use of wax and ceramic materials used to create molds consumed during  
22 the process of creating ferrous and nonferrous investment castings used  
23 in industrial applications.

24 (2) This section expires July 1, 2020.

#### 25 **PART XXII**

##### 26 **Tax Relief for Aluminum Smelters**

27 **Sec. 2201.** RCW 82.04.2909 and 2006 c 182 s 1 are each amended to  
28 read as follows:

29 (1) Upon every person who is an aluminum smelter engaging within  
30 this state in the business of manufacturing aluminum; as to such  
31 persons the amount of tax with respect to such business ((shall)) is,  
32 in the case of manufacturers, ((be)) equal to the value of the product

1 manufactured, or in the case of processors for hire, (~~be~~) equal to  
2 the gross income of the business, multiplied by the rate of .2904  
3 percent.

4 (2) Upon every person who is an aluminum smelter engaging within  
5 this state in the business of making sales at wholesale of aluminum  
6 manufactured by that person, as to such persons the amount of tax with  
7 respect to such business (~~shall be~~) is equal to the gross proceeds of  
8 sales of the aluminum multiplied by the rate of .2904 percent.

9 (3) This section expires January 1, (~~2012~~) 2017.

10 **Sec. 2202.** RCW 82.04.4481 and 2006 c 182 s 2 are each amended to  
11 read as follows:

12 (1) In computing the tax imposed under this chapter, a credit is  
13 allowed for all property taxes paid during the calendar year on  
14 property owned by a direct service industrial customer and reasonably  
15 necessary for the purposes of an aluminum smelter.

16 (2) A person taking the credit under this section is subject to all  
17 the requirements of chapter 82.32 RCW. A credit earned during one  
18 calendar year may be carried over to be credited against taxes incurred  
19 in the subsequent calendar year, but may not be carried over a second  
20 year. Credits carried over must be applied to tax liability before new  
21 credits. No refunds may be granted for credits under this section.

22 (3) Credits may not be claimed under this section for property  
23 taxes levied for collection in (~~2012~~) 2017 and thereafter.

24 **Sec. 2203.** RCW 82.08.805 and 2009 c 535 s 513 are each amended to  
25 read as follows:

26 (1) A person who has paid tax under RCW 82.08.020 for personal  
27 property used at an aluminum smelter, tangible personal property that  
28 will be incorporated as an ingredient or component of buildings or  
29 other structures at an aluminum smelter, or for labor and services  
30 rendered with respect to such buildings, structures, or personal  
31 property, is eligible for an exemption from the state share of the tax  
32 in the form of a credit, as provided in this section. A person  
33 claiming an exemption must pay the tax and may then take a credit equal  
34 to the state share of retail sales tax paid under RCW 82.08.020. The  
35 person (~~shall~~) must submit information, in a form and manner



1 prescribed by the department, specifying the amount of qualifying  
2 purchases or acquisitions for which the exemption is claimed and the  
3 amount of exempted tax.

4 (2) For the purposes of this section, "aluminum smelter" has the  
5 same meaning as provided in RCW 82.04.217.

6 (3) Credits may not be claimed under this section for taxable  
7 events occurring on or after January 1, ((2012)) 2017.

8 **Sec. 2204.** RCW 82.12.805 and 2009 c 535 s 620 are each amended to  
9 read as follows:

10 (1) A person who is subject to tax under RCW 82.12.020 for personal  
11 property used at an aluminum smelter, or for tangible personal property  
12 that will be incorporated as an ingredient or component of buildings or  
13 other structures at an aluminum smelter, or for labor and services  
14 rendered with respect to such buildings, structures, or personal  
15 property, is eligible for an exemption from the state share of the tax  
16 in the form of a credit, as provided in this section. The amount of  
17 the credit ((shall be)) is equal to the state share of use tax computed  
18 to be due under RCW 82.12.020. The person ((shall)) must submit  
19 information, in a form and manner prescribed by the department,  
20 specifying the amount of qualifying purchases or acquisitions for which  
21 the exemption is claimed and the amount of exempted tax.

22 (2) For the purposes of this section, "aluminum smelter" has the  
23 same meaning as provided in RCW 82.04.217.

24 (3) Credits may not be claimed under this section for taxable  
25 events occurring on or after January 1, ((2012)) 2017.

26 **Sec. 2205.** RCW 82.12.022 and 2006 c 182 s 5 are each amended to  
27 read as follows:

28 (1) There is ((hereby)) levied and ((there shall be)) collected  
29 from every person in this state a use tax for the privilege of using  
30 natural gas or manufactured gas within this state as a consumer.

31 (2) The tax ((shall be)) is levied and collected in an amount equal  
32 to the value of the article used by the taxpayer multiplied by the rate  
33 in effect for the public utility tax on gas distribution businesses  
34 under RCW 82.16.020. The "value of the article used" does not include  
35 any amounts that are paid for the hire or use of a gas distribution

1 business as defined in RCW 82.16.010(~~((+7))~~) (2) in transporting the gas  
2 subject to tax under this subsection if those amounts are subject to  
3 tax under that chapter.

4 (3) The tax levied in this section (~~((shall))~~) does not apply to the  
5 use of natural or manufactured gas delivered to the consumer by other  
6 means than through a pipeline.

7 (4) The tax levied in this section (~~((shall))~~) does not apply to the  
8 use of natural or manufactured gas if the person who sold the gas to  
9 the consumer has paid a tax under RCW 82.16.020 with respect to the gas  
10 for which exemption is sought under this subsection.

11 (5) The tax levied in this section (~~((shall))~~) does not apply to the  
12 use of natural or manufactured gas by an aluminum smelter as that term  
13 is defined in RCW 82.04.217 before January 1, (~~((2012))~~) 2017.

14 (6) There (~~((shall-be))~~) is a credit against the tax levied under  
15 this section in an amount equal to any tax paid by:

16 (a) The person who sold the gas to the consumer when that tax is a  
17 gross receipts tax similar to that imposed pursuant to RCW 82.16.020 by  
18 another state with respect to the gas for which a credit is sought  
19 under this subsection; or

20 (b) The person consuming the gas upon which a use tax similar to  
21 the tax imposed by this section was paid to another state with respect  
22 to the gas for which a credit is sought under this subsection.

23 (7) The use tax hereby imposed (~~((shall))~~) must be paid by the  
24 consumer to the department.

25 (8) There is imposed a reporting requirement on the person who  
26 delivered the gas to the consumer to make a quarterly report to the  
27 department. Such report (~~((shall))~~) must contain the volume of gas  
28 delivered, name of the consumer to whom delivered, and such other  
29 information as the department (~~((shall))~~) requires by rule.

30 (9) The department may adopt rules under chapter 34.05 RCW for the  
31 administration and enforcement of sections 1 through 6, chapter 384,  
32 Laws of 1989.

33 **Sec. 2206.** RCW 82.32.570 and 2006 c 182 s 6 are each amended to  
34 read as follows:

35 (1) For the purposes of this section, "smelter tax incentive" means  
36 the preferential tax rate under RCW 82.04.2909, or an exemption or  
37 credit under RCW 82.04.4481, 82.08.805, 82.12.805, or 82.12.022(5).

1       (2) The legislature finds that accountability and effectiveness are  
2 important aspects of setting tax policy. In order to make policy  
3 choices regarding the best use of limited state resources the  
4 legislature needs information to evaluate whether the stated goals of  
5 legislation were achieved.

6       (3) The goals of the smelter tax incentives are to retain family-  
7 wage jobs in rural areas by:

8       (a) Enabling the aluminum industry to maintain production of  
9 aluminum at a level that will preserve at least 75 percent of the jobs  
10 that were on the payroll effective January 1, 2004, as adjusted for  
11 employment reductions publicly announced before November 30, 2003; and

12       (b) Allowing the aluminum industry to continue producing aluminum  
13 in this state through ((2012)) 2017 so that the industry will be  
14 positioned to preserve and create new jobs when the anticipated  
15 reduction of energy costs occurs.

16       (4)(a) An aluminum smelter receiving the benefit of a smelter tax  
17 incentive ((shall)) must make an annual report to the department  
18 detailing employment, wages, and employer-provided health and  
19 retirement benefits per job at the manufacturing site. The report is  
20 due by March 31st following any year in which a tax incentive is  
21 claimed or used. The report ((shall)) may not include names of  
22 employees. The report ((shall)) must detail employment by the total  
23 number of full-time, part-time, and temporary positions. The report  
24 ((shall)) must indicate the quantity of aluminum smelted at the plant  
25 during the time period covered by the report. The first report filed  
26 under this subsection ((shall)) must include employment, wage, and  
27 benefit information for the twelve-month period immediately before  
28 first use of a tax incentive. Employment reports ((shall)) must  
29 include data for actual levels of employment and identification of the  
30 number of jobs affected by any employment reductions that have been  
31 publicly announced at the time of the report. Information in a report  
32 under this section is not subject to the confidentiality provisions of  
33 RCW 82.32.330 and may be disclosed to the public upon request.

34       (b) If a person fails to submit an annual report under (a) of this  
35 subsection by the due date of the report, the department ((shall)) must  
36 declare the amount of taxes exempted or credited, or reduced in the  
37 case of the preferential business and occupation tax rate, for that  
38 year to be immediately due and payable. Excise taxes payable under

1 this subsection are subject to interest but not penalties, as provided  
2 under this chapter. This information is not subject to the  
3 confidentiality provisions of RCW 82.32.330 and may be disclosed to the  
4 public upon request.

5 ~~((5) By December 1, 2007, December 1, 2010, and December 1, 2015,~~  
6 ~~the fiscal committees of the house of representatives and the senate,~~  
7 ~~in consultation with the department, shall report to the legislature on~~  
8 ~~the effectiveness of the smelter tax incentives under RCW 82.04.4482~~  
9 ~~and 82.16.0498. The reports shall measure the effect of the tax~~  
10 ~~incentives on job retention for Washington residents and any other~~  
11 ~~factors the committees may select.))~~

## 12 PART XXIII

### 13 Preferential Business and Occupation Tax Rate 14 for Certain Aviation Repair Businesses

15 **Sec. 2301.** RCW 82.04.250 and 2008 c 81 s 5 are each amended to  
16 read as follows:

17 (1) Upon every person engaging within this state in the business of  
18 making sales at retail, except persons taxable as retailers under other  
19 provisions of this chapter, as to such persons, the amount of tax with  
20 respect to such business ~~((shall be))~~ is equal to the gross proceeds of  
21 sales of the business, multiplied by the rate of 0.471 percent.

22 (2) Upon every person engaging within this state in the business of  
23 making sales at retail that are exempt from the tax imposed under  
24 chapter 82.08 RCW by reason of RCW 82.08.0261, 82.08.0262, or  
25 82.08.0263, except persons taxable under RCW 82.04.260(11) or  
26 subsection (3) of this section, as to such persons, the amount of tax  
27 with respect to such business ~~((shall be))~~ is equal to the gross  
28 proceeds of sales of the business, multiplied by the rate of 0.484  
29 percent.

30 (3)~~(a)~~ Until July 1, 2024, upon every person classified by the  
31 federal aviation administration as a federal aviation regulation part  
32 145 certificated repair station and that is engaging within this state  
33 in the business of making sales at retail that are exempt from the tax  
34 imposed under chapter 82.08 RCW by reason of RCW 82.08.0261,  
35 82.08.0262, or 82.08.0263, as to such persons, the amount of tax with

1 respect to such business (~~(shall be)~~) is equal to the gross proceeds of  
2 sales of the business, multiplied by the rate of .2904 percent.

3 (b) A person reporting under the tax rate provided in this  
4 subsection (3) must file a complete annual report with the department  
5 under RCW 82.32.--- (section 103, chapter -- (SHB 3066), Laws of 2010).

6 **PART XXIV**

7 **Excise Taxation of Publicly Owned Facilities Accredited by the**  
8 **Association of Zoos and Aquariums**

9 NEW SECTION. Sec. 2401. The legislature finds that publicly owned  
10 facilities accredited by the association of zoos and aquariums in  
11 Washington serve a public purpose by providing educational and  
12 recreational opportunities for Washington citizens and spurring  
13 economic development in the state. The legislature also finds that  
14 organizations operating accredited zoos and aquariums are similar to  
15 other artistic or cultural organizations, which currently receive  
16 favorable tax treatment. The legislature intends to provide certain  
17 excise tax relief to organizations operating accredited zoo and  
18 aquarium facilities in order to further their public purpose and  
19 stimulate economic development.

20 NEW SECTION. Sec. 2402. A new section is added to chapter 82.04  
21 RCW to read as follows:

22 (1) In computing tax there may be deducted from the measure of tax  
23 by persons subject to payment of the tax on manufacturing under RCW  
24 82.04.240, the value of the products manufactured to the extent the  
25 manufacturing activities are: (a) Undertaken by a nonprofit  
26 organization or metropolitan park district operating a zoological  
27 facility; and (b) solely for the purpose of manufacturing articles for  
28 use by the organization or district in displaying or presenting  
29 zoological exhibitions, presentations, performances, or education  
30 programs at the zoological facility.

31 (2) In computing tax there may be deducted from the measure of tax  
32 those amounts received:

33 (a) By a nonprofit organization or metropolitan park district where  
34 the income is derived from business activities conducted by the  
35 organization or district with respect to a zoological facility; or

(b) By a nonprofit organization or metropolitan park district from the United States or any instrumentality thereof or from the state of Washington or any municipal corporation or subdivision thereof as compensation for, or to support, zoological exhibitions, presentations, performances, or education programs at a zoological facility.

(3) For the purposes of this section:

(a) "Metropolitan park district" or "district" means a metropolitan park district created under chapter 35.61 RCW.

(b) "Nonprofit organization" means a business entity incorporated or authorized to conduct affairs in this state under chapter 24.03 RCW.

(c) "Zoological facility" means a publicly owned facility accredited by the association of zoos and aquariums.

(4) This section expires July 1, 2020.

## **PART XXV**

### **Sales and Use Tax Deferral for Performing Arts Centers**

NEW SECTION. **Sec. 2501.** A new section is added to chapter 82.32 RCW to read as follows:

(1) The governing board of a nonprofit organization, corporation, or association may apply for deferral of taxes on taxable activity related to an eligible facility. Application must be made to the department in a form and manner prescribed by the department. The application must contain information regarding the location of the facility, estimated or actual costs of the facility, time schedules for completion and operation of the facility, and other information required by the department. The department must rule on the application within sixty days. All applications for the tax deferral under this section must be submitted prior to the initiation of construction and no later than December 31, 2012.

(2) The department must issue a sales and use tax deferral certificate for state and local sales and use taxes due under chapters 82.08, 82.12, and 82.14 RCW for sales or charges made for taxable activity related to an eligible facility.

(3) The nonprofit organization, corporation, or association must begin paying the deferred taxes in the fifth year after the date in which the eligible facility is issued an occupancy permit by the local permit issuing authority. The first payment is due by December 31st of

1 the fifth calendar year after such certified date, with subsequent  
2 annual payments due by December 31st of the following nine years. Each  
3 payment must equal ten percent of the deferred tax.

4 (4) The department may authorize an accelerated repayment schedule  
5 upon request of the nonprofit organization, corporation, or  
6 association.

7 (5) Except as provided in subsection (6) of this section, interest  
8 may not be charged on any taxes deferred under this section for the  
9 period of deferral. The debt for deferred taxes is not extinguished by  
10 insolvency or other failure of the nonprofit organization, corporation,  
11 or association.

12 (6) If the facility is not operationally complete within five  
13 calendar years from issuance of the tax deferral certificate or if at  
14 any time the department finds that the facility is not eligible for tax  
15 deferral under this section, the amount of deferred taxes outstanding  
16 for the facility is immediately due and payable. If deferred taxes  
17 must be repaid under this subsection, the department must assess  
18 interest, but not penalties, on amounts due under this subsection.  
19 Interest is assessed at the rate provided for delinquent taxes under  
20 this chapter, retroactively to the date of deferral, and accrues until  
21 the deferred taxes due are repaid.

22 (7) Applications and any other information received by the  
23 department of revenue under this section are not confidential under RCW  
24 82.32.330. This chapter applies to the administration of this section.

25 (8) This section applies to taxable activity for an eligible  
26 facility that occurs on or after July 1, 2011.

27 (9) The following definitions apply to this section:

28 (a) "Eligible facility" means a facility that is: (i) Owned and  
29 operated by a nonprofit organization, corporation, or association; (ii)  
30 used primarily as a performing arts center; and (iii) located in a city  
31 with an estimated population between one hundred fifteen thousand and  
32 one hundred fifty thousand at the time construction of the facility is  
33 initiated.

34 (b) "Facility" means a new structure and fixtures that are  
35 permanently affixed to and become a physical part of the structure.

36 (c) "Nonprofit organization, corporation, or association" means an  
37 organization, corporation, or association exempt from tax under section

1 26 U.S.C. Sec. 501(c)(3) of the federal internal revenue code of 1986,  
2 as amended as of the effective date of this section.

3 (d) "Performing arts center" means a facility that is used for  
4 music, dance, drama, or similar presentations and has a seating  
5 capacity of one thousand seven hundred or more.

6 (e) "Site preparation" includes soil testing, site clearing and  
7 grading, demolition, or any other related activities that are initiated  
8 before construction. Site preparation does not include landscaping  
9 services or landscaping materials.

10 (f) "Taxable activity" means construction of new structures, the  
11 acquisition and installation of fixtures, and site preparation.

12 **PART XXVI**

13 **Miscellaneous Provisions**

14 NEW SECTION. **Sec. 2601.** (1) Except as provided in subsection (2)  
15 of this section, if any provision of sections 101 through 108 of this  
16 act or its application to any person or circumstance is held invalid,  
17 the remainder of sections 101 through 108 of this act or the  
18 application of the provision to other persons or circumstances is not  
19 affected.

20 (2) If a court of competent jurisdiction, in a final judgment not  
21 subject to appeal, adjudges any provision of section 104(1)(c) of this  
22 act unconstitutional or otherwise invalid, sections 101 through 108 of  
23 this act are null and void in their entirety.

24 NEW SECTION. **Sec. 2602.** Sections 101 through 108 of this act  
25 apply with respect to gross income of the business, as defined in RCW  
26 82.04.080, including gross income from royalties as defined in RCW  
27 82.04.2907, generated on and after July 1, 2010. For purposes of  
28 calculating the thresholds in section 104(1)(c) of this act for the  
29 2010 tax year, property, payroll, and receipts are based on the entire  
30 2010 tax year.

31 NEW SECTION. **Sec. 2603.** Sections 201 through 213 of this act must  
32 be construed liberally to effectuate the legislature's intent to ensure  
33 that all businesses and individuals pay their fair share of taxes.



1        NEW SECTION.    **Sec. 2604.**    (1) Except as provided in subsection (2)  
2 of this section, section 201 of this act applies to tax periods  
3 beginning January 1, 2006.

4        (2) Section 201 of this act does not apply to any tax periods  
5 ending before April 1, 2010, that were included in a completed field  
6 audit conducted by the department.

7        NEW SECTION.    **Sec. 2605.**    Sections 502, 802, 1701, and 1702 of this  
8 act apply both retroactively and prospectively.

9        NEW SECTION.    **Sec. 2606.**    In accordance with Article VIII, section  
10 5 of the state Constitution, sections 802 and 2605 of this act do not  
11 authorize refunds of business and occupation tax validly collected  
12 before April 1, 2010, on amounts received by an individual from a  
13 corporation as compensation for serving as a member of that  
14 corporation's board of directors.

15       NEW SECTION.    **Sec. 2607.**    Section 502 of this act does not affect  
16 any final judgments, not subject to appeal, entered by a court of  
17 competent jurisdiction before the effective date of this section.

18       NEW SECTION.    **Sec. 2608.**    Sections 1101 and 1102 of this act apply  
19 to transfers or conveyances as described in RCW 82.45.010(3)(i)  
20 occurring on and after April 1, 2010.

21       NEW SECTION.    **Sec. 2609.**    Section 1602 of this act applies only  
22 with respect to tax liability incurred under chapter 82.24 RCW on or  
23 after April 1, 2010, for the sale, use, consumption, handling,  
24 possession, or distribution of cigarettes.

25       NEW SECTION.    **Sec. 2610.**    Section 1605(1) (a), (b), and (d) of this  
26 act applies only with respect to tax liability incurred under chapter  
27 82.24 RCW on or after April 1, 2010, for the sale, handling, or  
28 distribution of cigars, little cigars, and other tobacco products.

29       NEW SECTION.    **Sec. 2611.**    Section 1605(1)(c), chapter . . . , Laws  
30 of 2010 (this act) applies only with respect to tax liability incurred

1 under chapter 82.24 RCW on or after October 1, 2010, for the sale,  
2 handling, or distribution of moist snuff.

3 NEW SECTION. **Sec. 2612.** If any provision of this act or its  
4 application to any person or circumstance is held invalid, the  
5 remainder of the act or the application of the provision to other  
6 persons or circumstances is not affected.

7 NEW SECTION. **Sec. 2613.** Except as otherwise provided in this act,  
8 this act is necessary for the immediate preservation of the public  
9 peace, health, or safety, or support of the state government and its  
10 existing public institutions, and takes effect April 1, 2010.

11 NEW SECTION. **Sec. 2614.** Parts I, II, and III of this act take  
12 effect July 1, 2010.

13 NEW SECTION. **Sec. 2615.** Section 902 of this act takes effect  
14 January 1, 2011.

15 NEW SECTION. **Sec. 2616.** Sections 1701, 1702, 1704 through 1708,  
16 and 1712 through 1715 of this act take effect July 1, 2010.

17 NEW SECTION. **Sec. 2617.** Sections 1709 and 1710 of this act take  
18 effect July 1, 2010, if the legislature does not enact Substitute House  
19 Bill No. 1597 by July 1, 2010.

20 NEW SECTION. **Sec. 2618.** Section 605 of this act expires July 1,  
21 2011.

22 NEW SECTION. **Sec. 2619.** Section 606 of this act takes effect July  
23 1, 2011.

24 NEW SECTION. **Sec. 2620.** Section 1801 of this act applies  
25 prospectively only."

26 Correct the title.

--- END ---